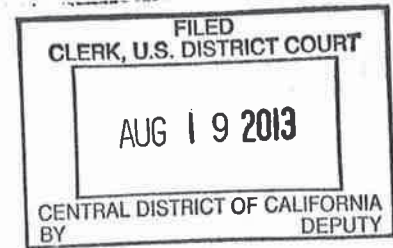


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**UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA  
WESTERN DIVISION**

NATIONAL CREDIT UNION  
ADMINISTRATION BOARD,  
as Liquidating Agent of Western  
Corporate Federal Credit Union,  
Plaintiff,

vs.

RBS SECURITIES, INC., f/k/a RBS  
GREENWICH CAPITAL  
MARKETS, INC., GREENWICH  
CAPITAL ACCEPTANCE, INC.,  
AMERICAN HOME MORTGAGE  
ASSETS LLC, LARES ASSET  
SECURITIZATION, INC.,  
NOMURA ASSET ACCEPTANCE  
CORP., NOMURA HOME EQUITY  
LOAN, INC., and WACHOVIA  
MORTGAGE LOAN TRUST, LLC,  
Defendants.

Case No. CV 11-05887 GW(JLMx)

**FIRST AMENDED  
COMPLAINT**

**JURY TRIAL DEMANDED**

Judge: Hon. George Wu  
Courtroom: 10

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Plaintiff, the National Credit Union Administration Board (“NCUA Board”) brings this action in its capacity as Liquidating Agent of Western Corporate Federal Credit Union (“WesCorp”) against RBS Securities, Inc. (“RBS”) (f/k/a RBS Greenwich Capital Markets, Inc.) as underwriter and seller, and against Greenwich Capital Acceptance, Inc.; American Home Mortgage Assets LLC; Lares Asset Securitization, Inc.; Nomura Asset Acceptance Corp.; Nomura Home Equity Loan, Inc.; and, Wachovia Mortgage Loan Trust, LLC (collectively, the “Issuer Defendants”) as issuers, of certain residential mortgage-backed securities (“RMBS”) purchased by WesCorp, and alleges as follows in this First Amended Complaint:<sup>1</sup>

#### **I. NATURE OF THE ACTION**

1. This action arises out of the sale of RMBS to WesCorp where RBS acted as underwriter and/or seller of the RMBS.

2. Virtually all of the RMBS sold to WesCorp were rated as triple-A (the same rating as United States Treasury Bonds) at the time of issuance.

3. The Issuer Defendants issued and RBS underwrote and sold the RMBS pursuant to registration statements, prospectuses, and/or prospectus supplements (collectively, the “Offering Documents”). These Offering Documents contained untrue statements of material fact or omitted to state material facts in violation of Sections 11 and 12(a)(2) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C. §§ 77k, 77l(a)(2) (“Section 11” and “Section 12(a)(2),” respectively), and the California Corporate Securities Law of 1968, Cal. Corp. Code §§ 25401, 25501 (“California Corporate Securities Law”).

4. The NCUA Board expressly disclaims and disavows any allegation in this complaint that could be construed as alleging fraud.

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<sup>1</sup> Plaintiff acknowledges and respects the rulings issued by the Court. Certain claims and allegations are repled herein to preserve such issues for appeal.

1           5.     The Offering Documents described, among other things, the mortgage  
2 underwriting standards of the originators (the “Originators”) that made the mortgages  
3 that were pooled and served as the collateral for the RMBS purchased by WesCorp.

4           6.     The Offering Documents represented that the Originators adhered to the  
5 underwriting guidelines set out in the Offering Documents for the mortgages in the  
6 pools collateralizing the RMBS.

7           7.     The Offering Documents also represented that the loan pools underlying  
8 the RMBS had certain characteristics. These material representations included the  
9 weighted average loan-to-value (“LTV”) ratio, the weighted average combined loan-to-  
10 value ratio (“CLTV”), and owner occupancy rates (“OOR”).

11          8.     LTV represents the amount of the loans as a percentage of the value of  
12 the mortgaged properties. A lower LTV number indicated that the loans were less  
13 likely to default because the borrower had greater equity, and in the event of default,  
14 that the balance of the loans could be recovered by selling the properties.

15          9.     OOR represents the percentage of borrowers who occupied the  
16 mortgaged properties. A higher OOR number indicated that the loans were less likely  
17 to default, as borrowers are much less likely to default on their primary residence than  
18 an investment property or vacation home.

19          10.    In fact, the Originators had systematically abandoned the stated  
20 underwriting guidelines in the Offering Documents. Because the mortgages in the  
21 pools collateralizing the RMBS were largely underwritten without adherence to the  
22 underwriting standards stated in the Offering Documents, the RMBS were  
23 significantly riskier than represented. Also, properties were routinely overvalued at the  
24 time of origination, rendering the average LTV ratios inaccurate. And the Offering  
25 Documents represented that a significant number of properties were owner-occupied,  
26 when in fact, they were not. Indeed, a material percentage of the loans collateralizing  
27 the RMBS were all but certain to become delinquent or default shortly after  
28 origination. As a result, the RMBS were destined from inception to perform poorly.



11. These untrue statements and omissions of fact were material because the value of RMBS is largely a function of the cash flow from the principal and interest payments on the mortgage loans collateralizing the RMBS. Thus, the performance of the RMBS is tied to the borrower's ability to repay the loan.

12. WesCorp purchased the RMBS listed in Table 1 (*infra*) through initial offerings directly from RBS by means of prospectuses or oral communications. Thus, RBS is liable for material untrue statements and omissions of fact under Section 11, Section 12(a)(2), and/or the California Corporate Securities Law for the RMBS listed in Table 1.

**Table 1**

CUSIP <sup>2</sup>	ISSUING ENTITY	DEPOSITOR	BUYER	TRADE DATE	PRICE PAID
65538DAB1	Alternative Loan Trust 2006-AR4 ("NAA 2006-AR4")	Nomura Asset Acceptance Corporation	WesCorp	11/17/06	\$12,778,000
026935AD8	American Home Mortgage Assets Trust 2007-3 ("AHMA 2007-3")	American Home Mortgage Assets LLC	WesCorp	6/1/07	\$30,339,000
32027NXE6	First Franklin Mortgage Loan Trust 2005-FFH4 ("FFMLT 2005-FFH4")	Financial Asset Securities Corp	WesCorp	11/30/05	\$10,000,000
41162CAD3	HarborView 2006-10 ("HVMLT 2006-10")	Greenwich Capital Acceptance, Inc	WesCorp	10/18/06	\$90,000,000
41162GAB8	HarborView 2006-11 ("HVMLT 2006-11")	Greenwich Capital Acceptance, Inc	WesCorp	10/27/06	\$18,934,000
41162DAG4	HarborView 2006-12 ("HVMLT 2006-12")	Greenwich Capital Acceptance, Inc	WesCorp	10/19/06	\$80,000,000

<sup>2</sup> "CUSIP" stands for "Committee on Uniform Securities Identification Procedures." A CUSIP number is used to identify most securities, including certificates of RMBS. See CUSIP Number, <http://www.sec.gov/answers/cusip.htm>.



CUSIP <sup>2</sup>	ISSUING ENTITY	DEPOSITOR	BUYER	TRADE DATE	PRICE PAID
41162DAH2	HVMLT 2006-12	Greenwich Capital Acceptance, Inc	WesCorp	11/29/06	\$120,000,000
41162NAD9	HarborView 2006-14 ("HVMLT 2006-14")	Greenwich Capital Acceptance, Inc	WesCorp	12/5/06	\$60,000,000
41162NAH0	HVMLT 2006-14	Greenwich Capital Acceptance, Inc	WesCorp	12/5/06	\$99,827,000
41161GAE3	HarborView 2006-8 ("HVMLT 2006-8")	Greenwich Capital Acceptance, Inc	WesCorp	8/1/06	\$105,693,000
41161XAM8	HarborView 2006-9 ("HVMLT 2006-9")	Greenwich Capital Acceptance, Inc	WesCorp	8/18/06	\$100,000,000
41164MAF4	HarborView 2007-1 ("HVMLT 2007-1")	Greenwich Capital Acceptance, Inc	WesCorp	2/14/07	\$48,602,000
41164MAP2	HVMLT 2007-1	Greenwich Capital Acceptance, Inc	WesCorp	2/16/07	\$56,000,000
41164LAC3	HarborView 2007-2 ("HVMLT 2007-2")	Greenwich Capital Acceptance, Inc	WesCorp	3/1/07	\$55,000,000
41164YAD3	HarborView 2007-4 ("HVMLT 2007-4")	Greenwich Capital Acceptance, Inc	WesCorp	5/30/07	\$98,667,000
41165AAC6	HarborView 2007-5 ("HVMLT 2007-5")	Greenwich Capital Acceptance, Inc	WesCorp	6/26/07	\$55,000,000
41165AAD4	HVMLT 2007-5	Greenwich Capital Acceptance, Inc	WesCorp	6/26/07	\$71,000,000
45667SAN7	IndyMac INDX Mortgage Loan Trust 2006-AR35 ("INDX 2006-AR35")	IndyMac MBS, Inc	WesCorp	11/28/06	\$180,000,000

CUSIP <sup>2</sup>	ISSUING ENTITY	DEPOSITOR	BUYER	TRADE DATE	PRICE PAID
45667SAP2	INDX 2006-AR35	IndyMac MBS, Inc	WesCorp	11/28/06	\$20,000,000
55028CAA3	Luminent Mortgage Trust 2007-1 ("LUM 2007-1")	Lares Asset Securitization, Inc	WesCorp	1/23/07	\$35,000,000
55028CAB1	LUM 2007-1	Lares Asset Securitization, Inc	WesCorp	1/23/07	\$20,400,000
61915RCL8	MortgageIT Mortgage Loan Trust 2006-1 ("MHL 2006-1")	Greenwich Capital Acceptance, Inc	WesCorp	2/17/06	\$35,710,500
65537KAB6	Nomura Home Equity Loan, Inc , Home Equity Loan Trust, Series 2007-1 ("NHELI 2007-1")	Nomura Home Equity Loan, Inc	WesCorp	1/23/07	\$40,000,000
65537KAC4	NHELI 2007-1	Nomura Home Equity Loan, Inc	WesCorp	1/23/07	\$30,000,000
83611MJM1	Soundview Home Loan Trust 2005-OPT4 ("SVHE 2005-OPT4")	Financial Asset Securities Corp	WesCorp	11/22/05	\$18,037,000

13. WesCorp purchased each RMBS listed in Table 2 (*infra*) pursuant to and traceable to a registration statement containing an untrue statement of a material fact or that omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading. RBS was an underwriter for each of the securities listed in Table 2. RBS also acted as seller for the HVMLT 2006-9 and HVMLT 2007-1 Certificates listed in Table 2. Thus, RBS is liable for material untrue statements and omissions of fact under Section 11 for the RMBS listed in Table 2 and for material untrue statements and omissions of fact under the California Blue Sky law for the HVMLT 2006-9 and HVMLT 2007-1 Certificates.

Table 2

CUSIP	ISSUING ENTITY	SELLER	DEPOSITOR	BUYER	TRADE DATE	PRICE PAID
41161XAN6	HVMLT 2006-9	RBS	Greenwich Capital Acceptance, Inc	WesCorp	3/8/07	\$22,810,706
41164MAP2	HVMLT 2007-1	RBS	Greenwich Capital Acceptance, Inc	WesCorp	3/12/07	\$6,921,395
55028CAE5	LUM 2007-1		Lares Asset Securitization, Inc	WesCorp	3/1/07	\$25,074,560
92978GAC3	Wachovia Mortgage Loan Trust, Series 2006-ALT1 ("WMLT 2006-ALT1")		Wachovia Mortgage Loan Trust, LLC	WesCorp	11/30/06	\$44,376,000

14. The RMBS WesCorp purchased suffered a significant drop in market value. WesCorp has suffered significant losses from those RMBS purchased despite the NCUA Board's mitigation efforts.

## II. PARTIES AND RELEVANT NON-PARTIES

15. The National Credit Union Administration ("NCUA") is an independent agency of the Executive Branch of the United States Government that, among other things, charters and regulates federal credit unions, and operates and manages the National Credit Union Share Insurance Fund ("NCUSIF") and the Temporary Corporate Credit Union Stabilization Fund ("TCCUSF"). The NCUSIF insures the deposits of account holders in all federal credit unions and the majority of state-chartered credit unions. The TCCUSF was created in 2009 to allow the NCUA to borrow funds from the United States Department of the Treasury ("Treasury Department") for the purposes of stabilizing corporate credit unions under conservatorship or liquidation, or corporate credit unions threatened with conservatorship or liquidation. The NCUA must repay all monies borrowed from the Treasury Department for the purposes of the TCCUSF by 2021. The NCUA has

1 regulatory authority over state-chartered credit unions that have their deposits insured  
2 by the NCUSIF. The NCUA is under the management of the NCUA Board. *See*  
3 Federal Credit Union Act, 12 U.S.C. §§ 1751, 1752a(a) (“FCUA”).

4 16. WesCorp was a federally chartered corporate credit union with its offices  
5 and principal place of business in San Dimas, California. As a corporate credit union,  
6 WesCorp provided investment and financial services to other credit unions.

7 17. The NCUA Board placed WesCorp into conservatorship on March 20,  
8 2009, pursuant to the FCUA, 12 U.S.C. § 1751 *et seq.* On October 1, 2010, the NCUA  
9 Board placed WesCorp into involuntary liquidation and appointed itself Liquidating  
10 Agent.

11 18. Pursuant to 12 U.S.C. § 1787(b)(2)(A), the NCUA Board as Liquidating  
12 Agent has succeeded to all rights, titles, powers, and privileges of WesCorp and of any  
13 member, account holder, officer, or director of WesCorp, with respect to WesCorp  
14 and its assets, including the right to bring the claims asserted by them in this action.  
15 As Liquidating Agent, the NCUA Board has all the powers of the members, directors,  
16 officers, and committees of WesCorp and succeeds to all rights, titles, powers, and  
17 privileges of WesCorp. *See* 12 U.S.C. § 1787(b)(2)(A). The NCUA Board may also sue  
18 on WesCorp’s behalf. *See* 12 U.S.C. §§ 1766(b)(3)(A), 1787(b)(2), 1789(a)(2).

19 19. Prior to being placed into conservatorship and involuntary liquidation,  
20 WesCorp was the second-largest corporate credit union in the United States.

21 20. Any recoveries from this legal action will reduce the total losses resulting  
22 from the failure of WesCorp. Losses from WesCorp’s failure must be paid from the  
23 NCUSIF or the TCCUSF. Expenditures from these funds must be repaid through  
24 assessments against all federally-insured credit unions. Because of the expenditures  
25 resulting from WesCorp’s failure, federally-insured credit unions will experience larger  
26 assessments, thereby reducing federally-insured credit unions’ net worth. Reductions  
27 in net worth can adversely affect the dividends that individual members of credit  
28 unions receive for the savings on deposit at their credit union. Reductions in net

1 worth can also make loans for home mortgages and automobile purchases more  
2 expensive and difficult to obtain. Any recoveries from this action will help to reduce  
3 the amount of any future assessments on federally-insured credit unions throughout  
4 the system, reducing the negative impact on federally-insured credit unions' net worth.  
5 Recoveries from this action will benefit credit unions and their individual members by  
6 increasing net worth resulting in more efficient and lower-cost lending practices.

7 21. Defendant RBS Securities Inc. is a United States Securities and Exchange  
8 Commission ("SEC") registered broker-dealer. RBS Securities, Inc. is a wholly-owned  
9 subsidiary of The Royal Bank of Scotland Group. Prior to 2009, RBS Securities, Inc.  
10 was known as "RBS Greenwich Capital Markets, Inc." In 2000, The Royal Bank of  
11 Scotland acquired Greenwich Capital Markets, Inc., renaming it "RBS Greenwich  
12 Capital Markets, Inc."

13 22. RBS acted as an underwriter of all the RMBS that are the subject of this  
14 Complaint and that are listed in Tables 1 and 2 (*supra*). RBS is a Delaware corporation  
15 with its principal place of business in Connecticut.

16 23. Greenwich Capital Acceptance, Inc. is the depositor and issuer of the  
17 HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT 2006-  
18 14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9, and  
19 HVMLT 2006-8 offerings. Greenwich Capital Acceptance, Inc. is a Delaware  
20 corporation with its principal place of business in Maryland.

21 24. American Home Mortgage Assets LLC is the depositor and issuer of the  
22 AHMA 2007-3 offering. American Home Mortgage Assets LLC is a Delaware  
23 corporation with its principal place of business in New York.

24 25. Lares Asset Securitization, Inc. is the depositor and issuer of the LUM  
25 2007-1 offering. Lares Asset Securitization, Inc. is a Delaware corporation with its  
26 principal place of business in California.  
27  
28

1           26.    Nomura Asset Acceptance Corp. is the depositor and issuer of the NAA  
2   2006-AR4 offering. Nomura Asset Acceptance Corp. is a Delaware corporation with  
3   its principal place of business in New York.

4           27.    Nomura Home Equity Loan, Inc. is the depositor and issuer of the  
5   NHELI 2007-1 offering. Nomura Home Equity Loan, Inc. is a Delaware corporation  
6   with its principal place of business in New York.

7           28.    Wachovia Mortgage Loan Trust, LLC is the depositor and issuer of the  
8   WMLT 2006-ALT1 offering. Wachovia Mortgage Loan Trust, LLC is a Delaware  
9   corporation with its principal place of business in North Carolina.

### 10   **III.   JURISDICTION AND VENUE**

11           29.    This Court has subject matter jurisdiction pursuant to: (a) 12 U.S.C.  
12   § 1789(a)(2), which provides that “[a]ll suits of a civil nature at common law or in  
13   equity to which the [NCUA Board] shall be a party shall be deemed to arise under the  
14   laws of the United States, and the United States district courts shall have original  
15   jurisdiction thereof, without regard to the amount in controversy”; and (b) 28 U.S.C.  
16   § 1345, which provides that “the district courts shall have original jurisdiction of all  
17   civil actions, suits or proceedings commenced by the United States, or by any agency  
18   or officer thereof expressly authorized to sue by Act of Congress.”

19           30.    Venue is proper in this District under Section 22 of the Securities Act, 15  
20   U.S.C. § 77v(a), because the transactions at issue occurred in San Dimas, California,  
21   the headquarters of WesCorp. This Court has personal jurisdiction over each  
22   Defendant because they offered/sold the RMBS at issue in this Complaint to  
23   WesCorp in this District; prepared/disseminated the Offering Documents containing  
24   untrue statements or omissions of material fact as alleged herein to WesCorp in this  
25   District; and/or are residents of/conduct business in this District.

1 **IV. MORTGAGE ORIGATION AND THE SECURITIZATION**  
2 **PROCESS**

3 31. RMBS are asset-backed securities. A pool or pools of residential  
4 mortgages are the assets that back or collateralize the RMBS certificates purchased by  
5 investors.

6 32. Because residential mortgages are the assets collateralizing RMBS, the  
7 origination of mortgages commences the process that leads to the creation of RMBS.  
8 Originators decide whether to loan potential borrowers money to purchase residential  
9 real estate through a process called mortgage underwriting. The originator applies its  
10 underwriting standards or guidelines to determine whether a particular borrower is  
11 qualified to receive a mortgage for a particular property. The underwriting guidelines  
12 consist of a variety of metrics including: the borrower's debt, income, savings, credit  
13 history, and credit score; whether the property will be owner-occupied; and the  
14 amount of the loan compared to the value of the property at issue (the "loan-to-value"  
15 or "LTV" ratio), among other things. Underwriting guidelines are designed to ensure  
16 that: (1) the borrower has the means to repay the loan, (2) the borrower will likely  
17 repay the loan, and (3) the loan is secured by sufficient collateral in the event of  
18 default.

19 33. Historically, originators made mortgage loans to borrowers and held the  
20 loans. Originators profited as they collected monthly principal and interest payments  
21 directly from the borrower. Originators also retained the risk that the borrower would  
22 default on the loan.

23 34. This changed in the 1970s when the Government National Mortgage  
24 Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie  
25 Mae"), and the Federal Home Loan Mortgage Corporation ("Freddie Mac") began  
26 purchasing "conforming loans" (loans underwritten in accordance with Fannie Mae  
27 and Freddie Mac underwriting guidelines) from originators and "securitizing" them for  
28 resale to investors as RMBS.



1           35. More recently, originators, usually working with investment banks, began  
2 securitizing “non-conforming” loans. Non-conforming loans (loans not written in  
3 compliance with Fannie Mae or Freddie Mac guidelines) are also known as  
4 “nonprime” or “private label” loans and include “Alt-A” and “subprime” loans.  
5 Despite the non-conforming nature of the underlying mortgages, the securitizers of  
6 such RMBS were able to obtain triple-A credit ratings by using “credit enhancement”  
7 (explained *infra*) when they securitized the non-conforming loans.

8           36. All of the loans collateralizing the RMBS at issue in this Complaint are  
9 private-label mortgage loans.

10           37. The issuance of RMBS collateralized by non-conforming loans peaked in  
11 2006. The securitization process shifted the originators’ focus from ensuring the  
12 ability of borrowers to repay their mortgages to ensuring that the originator could  
13 process (and obtain fees from) an ever-larger loan volume for distribution as RMBS.  
14 This practice is known as “originate-to-distribute” (“OTD”).

15           38. Securitization begins with a “sponsor” that purchases loans in bulk from  
16 one or more originators. The sponsor transfers title of the loans to an entity called the  
17 “depositor.”

18           39. The depositor transfers the loans to a trust called the “issuing entity.”

19           40. The issuing entity issues “notes” and/or “certificates” representing an  
20 ownership interest in the cash flow from the mortgage pool underlying the securities  
21 (*i.e.*, the principal and interest generated as borrowers make monthly payments on the  
22 mortgages in the pool).

23           41. The depositor files required documents (such as registration statements  
24 and prospectuses) with the SEC so that the certificates can be offered to the public.

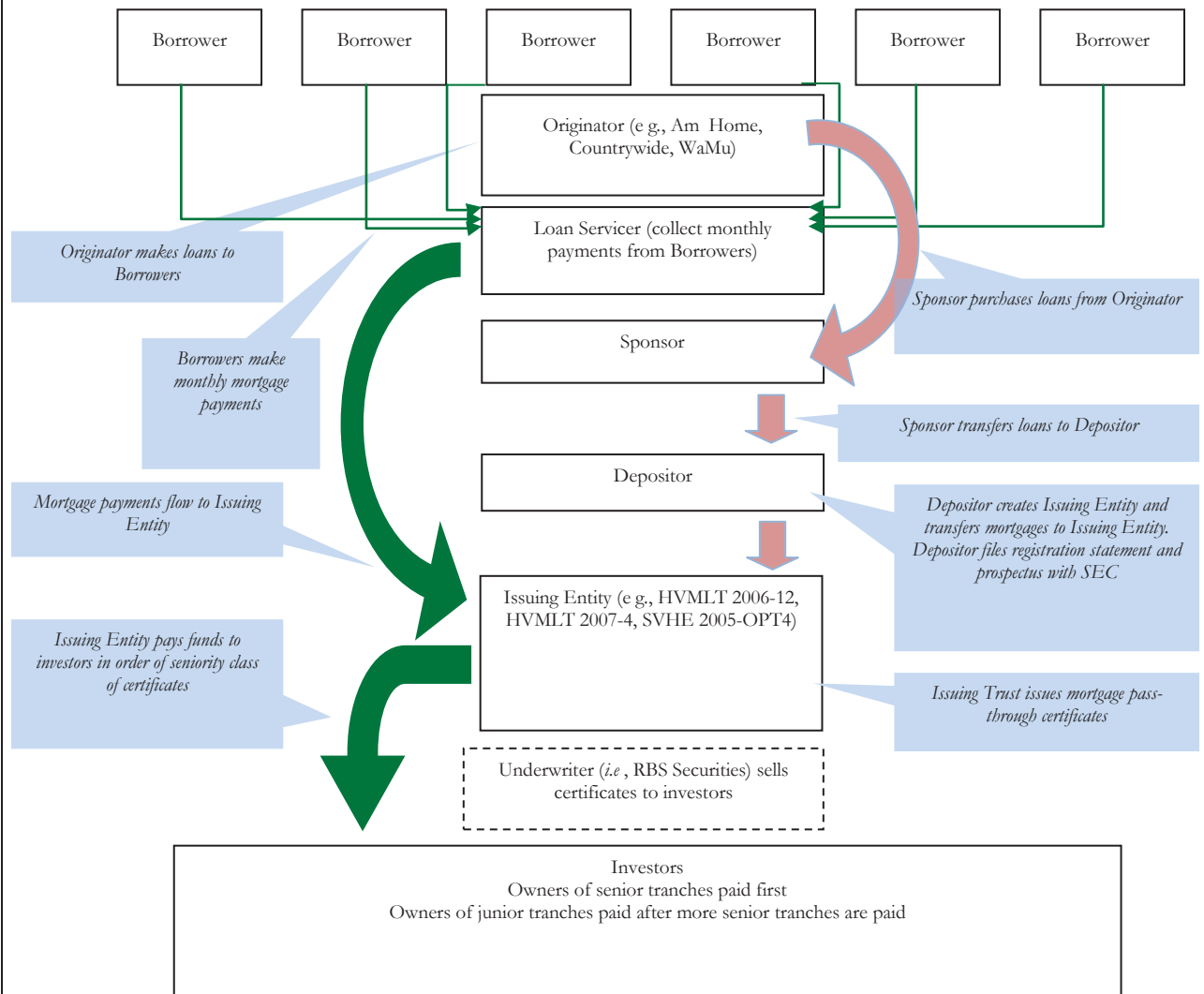
25           42. One or more “underwriters”—like RBS—then sell the certificates to  
26 investors.

27           43. A loan “servicer” collects payments from borrowers on individual  
28 mortgages as part of a pool of mortgages, and the issuing entity allocates and

distributes the income stream generated from the mortgage loan payments to the RMBS investors.

44. Figure 1 (*infra*) depicts a typical securitization process.

**Figure 1**



45. Because securitization, as a practical matter, shifts the risk of default on the mortgage loans from the originator of the loan to the RMBS investor, the originator's adherence to mortgage underwriting guidelines as represented in the offering documents with respect to the underlying mortgage loans is critical to the investors' ability to evaluate the expected performance of the RMBS.

## V. RMBS CREDIT RATINGS AND CREDIT ENHANCEMENT

46. RMBS offerings are generally divided into slices or "tranches," each of which represents a different level of risk. RMBS certificates denote the particular tranches of the security purchased by the investor.

47. The credit rating for an RMBS reflects an assessment of the creditworthiness of that RMBS and indicates the level of risk associated with that RMBS. Standard & Poor's ("S&P") and Moody's Investors Service, Inc. ("Moody's") are the credit rating agencies that assigned credit ratings to the RMBS in this case.

48. The credit rating agencies use letter-grade rating systems as shown in Table 3 (*infra*).

**Table 3**  
*Credit Ratings*

Moody's	S&P	Definitions	Grade Type
Aaa	AAA	Prime (Maximum Safety)	INVESTMENT GRADE
Aa1 Aa2 Aa3	AA+ AA AA-	High Grade, High Quality	
A1 A2 A3	A+ A A-	Upper Medium Grade	
Baa1 Baa2 Baa3	BBB+ BBB BBB-	Medium Grade	
Ba2 Ba3	BB BB-	Non-Investment Grade, or Speculative	
B1 B2 B3	B+ B B-	Highly Speculative, or Substantial Risk	SPECULATIVE GRADE
Caa2 Caa3	CCC+	In Poor Standing	
Ca	CCC CCC-	Extremely Speculative	
C	-	May be in Default	
-	D	Default	

1           49. Moody's purportedly awards the coveted "Aaa" rating to structured  
2 finance products that are "of the highest quality, with minimal credit risk." Moody's  
3 Investors Service, *Moody's Rating Symbols & Definitions* at 6 (August 2003), *available at*  
4 [http://www.rbcpa.com/Moody's\\_ratings\\_and\\_definitions.pdf](http://www.rbcpa.com/Moody's_ratings_and_definitions.pdf). Likewise, S&P rates a  
5 product "AAA" when the "obligor's capacity to meet its financial commitment on the  
6 obligation is extremely strong." Standard & Poor's, *Ratings Definitions*, *available at*  
7 [https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=101944](https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1019442&SctArtId=147045&from=CM&ns1_code=LIME)  
8 [2&SctArtId=147045&from=CM&ns1\\_code=LIME](https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1019442&SctArtId=147045&from=CM&ns1_code=LIME).

9           50. In fact, RMBS could not be sold unless they received one of the highest  
10 "investment grade" ratings on most tranches from one or more credit rating agencies,  
11 because the primary market for RMBS is institutional investors, such as WesCorp, that  
12 are generally limited to buying only securities with the highest credit ratings. *See, e.g.,*  
13 NCUA Credit Risk Management Rule, 12 C.F.R. § 704.6(d)(2) (2010) (prohibiting  
14 corporate credit unions from investing in securities rated below AA-); *but see, e.g.,*  
15 Alternatives to the Use of Credit Ratings, 77 Fed. Reg. 74,103 (Dec. 13, 2012) (to be  
16 codified at 12 C.F.R. pts. 703, 704, 709, and 742).

17           51. While the pool of mortgages underlying the RMBS may not have been  
18 sufficient to warrant a triple-A credit rating, various forms of "credit enhancement"  
19 were used to obtain a triple-A rating on the higher tranches of RMBS.

20           52. One form of credit enhancement is "structural subordination." The  
21 tranches, and their risk characteristics *relative* to each other, are often analogized to a  
22 waterfall. Investors in the higher or "senior" tranches are the first to be paid as  
23 income is generated *when borrowers* make their monthly payments. After investors in  
24 the most senior tranche are paid, investors in the next subordinate or "junior" tranche  
25 are paid, and so on down to the most subordinate or lowest tranche.

26           53. In the event mortgages in the pool default, the resulting loss is absorbed  
27 by the subordinate tranches first.  
28

1           54. Accordingly, senior tranches are deemed less risky than subordinate  
2 tranches and therefore receive higher credit ratings.

3           55. Another form of credit enhancement is overcollateralization.  
4 Overcollateralization is the inclusion of a higher dollar amount of mortgages in the  
5 pool than the par value of the security. The spread between the value of the pool and  
6 the par value of the security acts as a cushion in the event of a shortfall in expected  
7 cash flow.

8           56. Other forms of credit enhancement include “excess spread,” monoline  
9 insurance, obtaining a letter of credit, and “cross-collateralization.” “Excess spread”  
10 involves increasing the interest rate paid to the purchasers of the RMBS relative to the  
11 interest rate received on the cash flow from the underlying mortgages. Monoline  
12 insurance, also known as “wrapping” the deal, involves purchasing insurance to cover  
13 losses from any defaults. Letters of credit can also be purchased to cover defaults.  
14 Finally, some RMBS are “cross-collateralized,” *i.e.*, when a tranche in an RMBS  
15 experiences rapid prepayments or disproportionately high realized losses, principal and  
16 interest collected from another tranche is applied to pay principal or interest, or both,  
17 to the senior certificates in the loan group experiencing rapid prepayment or  
18 disproportionate losses.

## 19 **VI. WESCORP’S PURCHASES**

20           57. WesCorp purchased only the highest-rated tranches of RMBS. All but  
21 two were rated triple-A at the time of issuance. These securities have since been  
22 downgraded below investment grade just a few years after they were sold (*see infra*  
23 Table 4).

Table 4

Credit Ratings of RMBS Purchases Original/Recent								
CUSIP	ISSUER NAME	BUYER	ORIGINAL RATING S&P	ORIGINAL RATING MOODY'S	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade MOODY'S	RECENT RATING S&P	RECENT RATING MOODY'S
65538DAB1	NAA 2006-AR4	WesCorp	AAA 12/4/2006	Aaa 11/30/2006	B 8/20/2008	Caa1 7/25/2008	D 8/19/2009	C 9/2/2010
026935AD8	AHMA 2007-3	WesCorp	AAA 6/14/2007	Aaa 6/14/2007	B 10/30/2008	C 2/02/2009	D 2/24/2010	C 2/2/2009
32027NXXE6	FFMLT 2005- FFH4	WesCorp	AA 12/28/2005	Aa2 12/22/2005	B- 8/04/2009	B1 3/19/2009	B- 8/4/2009	C 4/6/2010
41162CAD3	HVMLT 2006-10	WesCorp	AAA 11/22/2006	Aaa 11/21/2006	CCC 8/14/2009	Caa3 2/20/2009	CC 5/11/2011	C 12/5/2010
41162GAB8	HVMLT 2006-11	WesCorp	AAA 12/22/2006	Aaa 12/20/2006	B 1/16/2009	Ba1 9/08/2008	CC 2/16/2010	C 11/19/2010
41162DAG4	HVMLT 2006-12	WesCorp	AAA 12/19/2006	Aaa 12/13/2006	B 4/14/2009	Ca 2/20/2009	CCC 7/24/2009	C 12/5/2010
41162DAH2	HVMLT 2006-12	WesCorp	AAA 12/19/2006	Aaa 12/13/2006	N/A	N/A	AA+ 11/8/2010	Aa3 11/23/2008
41162NAD9	HVMLT 2006-14	WesCorp	AAA 12/27/2006	Aaa 12/22/2006	BB 4/21/2009	Caa3 1/29/2009	CCC 8/14/2009	C 11/19/2010
41162NAH0	HVMLT 2006-14	WesCorp	AAA 12/27/2006	Aaa 12/22/2006	BB 10/09/2008	Ca 1/29/2009	D 6/23/2010	C 11/19/2010
41161GAE3	HVMLT 2006-8	WesCorp	AAA 9/5/2006	Aaa 8/4/2006	B 4/14/2009	Ca 2/20/2009	D 9/24/2010	C 12/5/2010
41161XAM8	HVMLT 2006-9	WesCorp	AAA 10/18/2006	Aaa 10/4/2006	CCC 4/15/2009	Ca 2/20/2009	CCC 4/15/2009	C 12/5/2010
41161XAN6	HVMLT 2006-9	WesCorp	AAA 10/18/2006	Aaa 10/4/2006	B 4/15/2009	Ca 2/20/2009	CCC 8/14/2009	C 12/5/2010
41164MAF4	HVMLT 2007-1	WesCorp	NR	Aaa 2/26/2007	NR	C 2/20/2009	NR	C 2/20/2009
41164MAP2	HVMLT 2007-1	WesCorp	AAA 3/22/2007	Aaa 3/9/2007	B 10/20/2008	Ca 2/20/2009	CCC 8/14/2009	C 12/5/2010
41164LAC3	HVMLT 2007-2	WesCorp	AAA 4/3/2007	Aaa 3/30/2007	CCC 8/14/2009	Caa3 2/20/2009	CCC 8/14/2009	C 12/5/2010
41164YAD3	HVMLT 2007-4	WesCorp	NR	Aaa 6/14/2007	NR	Ba1 9/08/2008	NR	C 12/5/2010
41165AAC6	HVMLT 2007-5	WesCorp	AAA 7/26/2007	Aaa 7/12/2007	CCC 7/24/2009	Caa3 2/20/2009	CCC 7/24/2009	C 12/5/2010
41165AAD4	HVMLT 2007-5	WesCorp	AAA 7/26/2007	Aaa 7/12/2007	CCC 7/24/2009	Ca 2/20/2009	D 5/25/2010	C 12/5/2010
45667SAN7	INDX 2006- AR35	WesCorp	AAA 12/1/2006	Aaa 11/29/2006	CCC 8/19/2009	Caa3 1/29/2009	D 3/18/2011	Caa3 1/29/2009
45667SAP2	INDX 2006- AR35	WesCorp	AAA 12/1/2006	Aaa 11/29/2006	B 10/30/2008	B3- 8/19/2008	D 12/24/2009	C 10/12/2010
55028CAA3	LUM 2007-1	WesCorp	AAA 2/1/2007	Aaa 1/25/2007	CCC 7/24/2009	Caa1 2/20/2009	CCC 7/24/2009	Caa3 12/14/2010
55028CAB1	LUM 2007-1	WesCorp	AAA 2/1/2007	Aaa 1/25/2007	CCC 7/24/2009	Ca 2/20/2009	CC 2/16/2010	C 12/14/2010
55028CAE5	LUM 2007-1	WesCorp	AAA 2/1/2007	Aaa 1/25/2007	B 10/27/2008	Ca 2/20/2009	D 6/23/2010	C 12/5/2010
61915RCL8	MHL 2006-1	WesCorp	AAA 3/2/2006	Aaa 2/22/2006	BB 10/20/2008	Ba1 8/04/2008	D 2/24/2010	C 12/9/2010
65537KAB6	NHELI 2007-1	WesCorp	AAA 2/2/2007	Aaa 1/31/2007	B+ 10/06/2008	Ba3 7/25/2008	D 11/25/2009	Ca 9/2/2010
65537KAC4	NHELI 2007-1	WesCorp	AAA 2/2/2007	Aaa 1/31/2007	B 10/06/2008	Caa1 7/25/2008	D 6/25/2009	C 9/2/2010
83611MJM1	SVHE 2005- OPT4	WesCorp	AA 12/1/2005	NR	B 10/13/2008	NR	CCC 8/4/2009	NR
92978GAC3	WMLT 2006- ALT1	WesCorp	AAA 1/3/2007	Aaa 12/27/2006	B 10/27/2008	Ba3 8/20/2008	B- 2/2/2010	Caa2 1/14/2010

1           58. At the time of purchase, WesCorp was not aware of the untrue  
2 statements or omissions of material facts in the Offering Documents of the RMBS. If  
3 WesCorp had known about the Originators' pervasive disregard of underwriting  
4 standards—contrary to the representations in the Offering Documents—WesCorp  
5 would not have purchased the certificates.

6           59. The securities' substantial loss of market value has injured WesCorp and  
7 the NCUA Board.

8       **VII. THE ORIGINATORS SYSTEMATICALLY DISREGARDED THE**  
9       **UNDERWRITING GUIDELINES STATED IN THE OFFERING**  
10       **DOCUMENTS**

11           60. The performance and value of RMBS are largely contingent upon  
12 borrowers repaying their mortgages. The loan underwriting guidelines ensure that the  
13 borrower has the means to repay the mortgage and that the RMBS is secured by  
14 sufficient collateral in the event of reasonably anticipated defaults on underlying  
15 mortgage loans.

16           61. With respect to RMBS collateralized by loans written by originators that  
17 systematically disregarded their stated underwriting standards, the following pattern is  
18 present:

- 19           a) a surge in borrower delinquencies and defaults on the mortgages in  
20 the pools (*see infra* Section VII.A and Table 5);
- 21           b) actual losses to the underlying mortgage pools within the first 12  
22 months after the offerings vastly exceeded expected losses (*see infra*  
23 Section VII.B and Figure 2); and,
- 24           c) a high percentage of the underlying mortgage loans were  
25 originated for distribution, as explained below (*see infra* Table 6 and  
26 accompanying allegations).
- 27           d) downgrades of the RMBS by credit rating agencies from high,  
28 investment-grade ratings when purchased to much lower ratings,



1 including numerous “junk” ratings (*see infra* Section VII.C and *supra*  
2 Table 4).

3 62. These factors support a finding that the Originators failed to originate the  
4 mortgages in accordance with the underwriting standards stated in the Offering  
5 Documents.

6 63. This conclusion is further corroborated by reports that the Originators  
7 that contributed mortgage loans to the RMBS at issue in this Complaint abandoned  
8 the underwriting standards described in the RMBS Offering Documents. *See infra*  
9 Section VII.D.

10 64. This conclusion is further corroborated by evidence that the RMBS  
11 underwritten by RBS at issue in this Complaint were collateralized by a substantial  
12 number of loans that were originated contrary to the stated underwriting standards (*see*  
13 *infra* Sections VII.E-F).

14 **A. The Surge in Mortgage Delinquency and Defaults Shortly After the**  
15 **Offerings and the High OTD Practices of the Originators**  
16 **Demonstrate Systematic Disregard of Underwriting Standards**

17 65. Residential mortgages are generally considered delinquent if no payment  
18 has been received for more than 30 days after payment is due. Residential mortgages  
19 where no payment has been received for more than 90 days (or three payment cycles)  
20 are generally considered to be in default.

21 66. The surge in delinquencies and defaults following the offerings evidences  
22 the systematic flaws in the Originators’ underwriting process (*see infra* Table 5).

23 67. The Offering Documents reported zero or near zero delinquencies and  
24 defaults at the time of the offerings (*see infra* Table 5).

25 68. The pools of mortgages collateralizing the RMBS experienced  
26 delinquency and default rates as high as 9.63% after only three months, up to 23.04%  
27 at six months, and reaching 43.78% at one year (*see infra* Table 5).  
28

69. As of May 2011, nearly half (45.09%) of the mortgage collateral across all of the RMBS that WesCorp purchased was in delinquency, bankruptcy, foreclosure, or was real estate owned (“REO”), which means that a bank or lending institution owns the property after a failed sale at a foreclosure auction (*see infra* Table 5).

70. Table 5 (*infra*) reflects the delinquency, foreclosure, bankruptcy, and REO rates on the RMBS as to which claims are asserted in this Complaint. The data presented in the last five columns are from the trustee reports (dates and page references as indicated in the parentheses). The shadowed rows reflect the group of mortgages in the pool underlying the specific tranches purchased by WesCorp; however, some trustee reports include only the aggregate data. For the RMBS with multiple groups, aggregate information on all the groups is included because the tranches are cross-collateralized.

**Table 5**

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
65538DAB1	NAA 2006-AR4 Aggregate (P S dated November 30, 2006)	Zero (S-34)	27% (Dec , p 9)	2 69% (Feb , p 9)	7 32% (May, p 9)	17 63% (Nov , p 9)	42 39% (May 2011, p 9)
	AHMA 2007-3 Aggregate (June 5, 2007)	Zero (S-40)	0% (June, p 10)	4 99% (Aug , p 10)	13 90% (Nov , p 10)	27 47% (May, p 10)	46 49% (May 2011, p 11)
	AHMA 2007-3: Group I-1	Zero (S-40)	0% (June, p 12)	2 62% (Aug , p 12)	8 63% (Nov , p 12)	23 58% (May, p 12)	52 52% (May 2011, p 12)
026935AD8	AHMA 2007-3: Group I-2 *Class I-2A-2 in Group I-2 (S-12)	Zero (S-40)	0% (June, p 12)	9 63% (Aug , p 12)	23 04% (Nov , p 12)	43 78% (May, p 12)	62 39% (May 2011, p 12)

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	AHMA 2007-3: Group II-1	Zero (S-40)	0% (June, p 13)	2 04% (Aug, p 13)	5 74% (Nov, p 13)	15 73% (May, p 13)	42 32% (May 2011, p 13)
	AHMA 2007-3: Group II-2	Zero (S-40)	0% (June, p 13)	3 72% (Aug, p 13)	12 44% (Nov, p 13)	25 55% (May, p 13)	42 85% (May 2011, p 13)
	AHMA 2007-3: Group III	Zero (S-40)	0% (June, p 14)	5 16% (Aug, p 14)	16 35% (Nov, p 14)	18 05% (May, p 14)	13 85% (May 2011, p 14)
	FFMLT 2005-FFH4 Aggregate (P S dated November 30, 2005)		80% (Dec, p 12)	2 16% (Feb, p 12)	3 83% (May, p 12)	9 64% (Nov, p 12)	49 43% (May 2011, p 13)
32027NXE6	FFMLT 2005-FFH4 Group 1 *Class M-2 in Groups 1 and 2 (S-72)		73% (Dec, p 13)	1 38% (Feb, p 13)	2 58% (May, p 13)	8 66% (Nov, p 13)	46 37% (May 2011, p 14)
32027NXE6	FFMLT 2005-FFH4 Group 2 *Class M-2 in Groups 1 and 2 (S-72)		88% (Dec, p 14)	3 09% (Feb, p 14)	5 39% (May, p 14)	10 92% (Nov, p 14)	54 40% (May 2011, p 15)
	HVMLT 2006-10 Aggregate (P S dated November 10, 2006)	15% of the mortgage loans were 30-59 days delinquent (S-27)	14% (Nov, p 10)	67% (Jan, p 10)	1 12% (Apr, p 10)	5 47% (Apr, p 10)	28 99% (May 2011, p 10)
	HVMLT 2006-10 Group 1	15% of the mortgage loans were 30-59 days delinquent (S-27)	07% (Nov, p 11)	55% (Jan, p 11)	56% (Apr, p 11)	5 38% (Apr, p 11)	32 57% (May 2011, p 11)

CUSIP	OFFERING	RATE AT CUT- OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
41162CAD3	HVMLT Group 2 *Class 2A-1B and 2A-1C in Group 2 (S-6)	15% of the mortgage loans were 30-59 days delinquent (S- 27)	19% (Nov , p 11)	74% (Jan , p 11)	1 44% (Apr , p 11)	5 52% (Apr , p 11)	26 97% (May 2011, p 11)
41162GAB8	HVMLT 2006-11 (P S dated November 10, 2006)	Zero (S-20)	38% (Nov , p 9)	1 46% (Jan , p 9)	2 44% (Apr , p 9)	9 07% (Apr , p 9)	50 38% (May 2011, p 9)
	HVMLT 2006-12 Aggregate (P S dated December 11, 2006)	Zero (S-28)	0% (Dec , p 11)	57% (Feb , p 11)	1 41% (May, p 10)	7 37% (Nov , p 10)	61 77% (May 2011, p 11)
	HVMLT 2006-12 Group 1	Zero (S-28)	0% (Dec , p 12)	46% (Feb , p 13)	1 01% (May, p 11)	6 88% (Nov , p 11)	63 08% (May 2011, p 12)
41162DAG4 41162DAH2	HVMLT 2006-12 Group 2 *Class 2A-1B, 2A-2B and 2A-2C in Group 2 (S-7)	Zero (S-28)	0% (Dec , p 12)	61% (Feb , p 13)	1 53% (May, p 11)	7 55% (Nov , p 11)	61 27% (May 2011, p 12)
	HVMLT 2006-14 Aggregate (December 20, 2006)	Zero (S-26)	17% (Jan , p 11)	78% (Mar , p 10)	1 97% (June, p 10)	8 61% (Dec , p 10)	36 66% (May 2011, p 11)
	HVMLT 2006-14 Group 1	Zero (S-26)	20% (Jan , p 13)	39% (Mar , p 12)	74% (June, p 12)	6 45% (Dec , p 12)	37 01% (May 2011, p 12)
41162NAD9 41162NAH0	HVMLT 2006-14 Group 2 *Class 2A-1B and 2A-2C in Group 2 (S-7)	Zero (S-26)	16% (Jan , p 13)	90% (Mar , p 12)	2 36% (June, p 12)	9 29% (Dec , p 12)	36 54% (May 2011, p 12)
	HVMLT 2006-8 Aggregate (P S dated August 28, 2006)	2 78% of the mortgage loans were 30-59 days delinquent in payment, and 0 48% were 60-89 days delinquent in payment (S-24)	5 59% (Sept , p 11)	5 68% (Nov , p 11)	5 48% (Feb , p 10)	9 16% (Aug , p 10)	46 43% (May 2011, p 10)

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	HVMLT 2006-8 Group 1	2 78% of the mortgage loans were 30-59 days delinquent in payment, and 0 48% were 60-89 days delinquent in payment (S-24)	3 78% (Sept , p 13)	4 12% (Nov , p 13)	3 40% (Feb , p 12)	8 11% (Aug , p 12)	45 29% (May 2011, p 11)
41161GAE3	HVMLT 2006-8 Group 2 *Class 2A-1C in Group 2 (S-7)	2 78% of the mortgage loans were 30-59 days delinquent in payment, and 0 48% were 60-89 days delinquent in payment (S-24)	6 51% (Sept , p 13)	6 50% (Nov , p 13)	6 54% (Feb , p 12)	9 75% (Aug , p 12)	47 13% (May 2011, p 11)
	HVMLT 2006-9 Aggregate (P S dated October 3, 2006)	Zero (S-26)	0% (Oct , p 10)	31% (Dec , p 10)	99% (Mar , p 10)	5 32% (Sept , p 10)	61 34% (May 2011, p 10)
	HVMLT 2006-9 Group 1	Zero (S-26)	0% (Oct , p 11)	31% (Dec , p 11)	67% (Mar , p 11)	4 96% (Sept , p 11)	58 93% (May 2011, p 15)
41161XAM8 41161XAN6	HVMLT 2006-9 Group 2 *Class 2A-1C1 and 2A-1B2 in Group 2 (S-7)	Zero (S-26)	0% (Oct , p 12)	31% (Dec , p 12)	1 14% (Mar , p 12)	5 50% (Sept , p 12)	62 52% (May 2011, p 19)
	HVMLT 2007-1 Aggregate (P S dated March 7, 2007)	0 04% of the mortgage loans were at least 30 days but less than 60 days delinquent in payment, and 0 03% were 60 days or more delinquent in payment (S-24)	32% (Mar , p 10)	1 08% (May , p 10)	2 88% (Aug , p 10)	12 86% (Feb , p 10)	62 01% (May 2011, p 10)
41164MAF4	HVMLT 2007-1 Group 1 *Class B-1 in both loan groups (S-6)	0 04% of the mortgage loans were at least 30 days but less than 60 days delinquent in payment, and 0 03% were 60 days or more delinquent in payment (S-24)	25% (Mar , p 11)	1 05% (May , p 11)	2 32% (Aug , p 11)	10 83% (Feb , p 11)	57 52% (May 2011, p 11)

CUSIP	OFFERING	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
41164MAP2 41164MAF4	HVMLT 2007-1 Group 2 *Class 2A-1C2 in Group 2 and Class B-1 in both groups (S-6)	0.04% of the mortgage loans were at least 30 days but less than 60 days delinquent in payment, and 0.03% were 60 days or more delinquent in payment (S-24)	37% (Mar , p 11)	1.10% (May, p 11)	3.29% (Aug , p 11)	14.29% (Feb , p 11)	65.17% (May 2011, p 11)
	HVMLT 2007-2 Aggregate (P S dated March 29, 2007)	64% of the mortgage loans were 30 days or more delinquent (S-25)	1.40% (Apr , p 10)	2.84% (June, p 10)	6.45% (Sept , p 10)	16.00% (Mar , p 10)	39.27% (May 2011, p 10)
	HVMLT 2007-2 Group 1	64% of the mortgage loans were 30 days or more delinquent (S-25)	84% (Apr , p 11)	1.18% (June, p 11)	3.15% (Sept , p 11)	10.64% (Mar , p 11)	37.72% (May 2011, p 11)
41164LAC3	HVMLT 2007-2 Group 2 *Class 2A-1B in Group 2 (S-7)	64% of the mortgage loans were 30 days or more delinquent (S-25)	1.63% (Apr , p 11)	3.45% (June, p 11)	7.66% (Sept , p 11)	17.93% (Mar , p 11)	39.94% (May 2011, p 11)
	HVMLT 2007-4 Aggregate (P S dated June 13, 2007)	26% of the mortgage loans were 30 days or more delinquent (S-26)	69% (June, p 11)	2.62% (Aug, p 10)	5.90% (Nov , p 10)	14.04% (May, p 10)	29.24% (May 2011, p 10)
	HVMLT 2007-4 Group 1	26% of the mortgage loans were 30 days or more delinquent (S-26)	44% (June, p 12)	77% (Aug, p 11)	1.73% (Nov , p 11)	4.88% (May, p 11)	24.24% (May 2011, p 11)
41164YAD3	HVMLT 2007-4 Group 2 *Class 2A-3 in Group 2 (S-7)	26% of the mortgage loans were 30 days or more delinquent (S-26)	78% (June, p 12)	3.31% (Aug, p 11)	7.45% (Nov , p 11)	17.40% (May, p 11)	31.52% (May 2011, p 11)

CUSIP	OFFERING	RATE AT CUT- OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
41165AAC6 41165AAD4	HVMLT 2007-5 Aggregate *Classes A-1B and A-1C (P S dated July 11, 2007)	Zero (S-23)	0% (July, p 10)	55% (Sept, p 10)	1 88% (Dec, p 9)	7 42% (June, p 9)	35 23% (May 2011, p 9)
	HVMLT 2007-5 Group 1	Zero (S-23)	0% (July, p 11)	0 00% (Sept, p 11)	32% (Dec, p 10)	3 31% (June, p 10)	30 32% (May 2011, p 10)
	HVMLT 2007-5 Group 2	Zero (S-23)	0% (July, p 11)	60% (Sept, p 11)	2 01% (Dec, p 10)	7 75% (June, p 10)	35 71% (May 2011, p 10)
	INDX 2006-AR35 Aggregate (P S dated November 29, 2006)	Zero (S-36)	2 42% (Dec, p 10)	3 76% (Feb, p 10)	6 42% (May, p 10)	16 16% (Nov, p 10)	43 06% (May 2011, p 10)
	INDX 2006-AR35 Group 1	Zero (S-36)	1 67% (Dec, p 11)	2 99% (Feb, p 11)	6 16% (May, p 11)	15 58% (Nov, p 11)	44 60% (May 2011, p 15)
45667SAN7 45667SAP2	INDX 2006-AR35 Group 2 *Classes 2-A-1A, 2-A-3A and 2-A-3B in Group 2 (S-11)	Zero (S-36)	2 89% (Dec, p 12)	4 25% (Feb, p 12)	6 58% (May, p 12)	16 54% (Nov, p 12)	41 99% (May 2011, p 20)
	LUM 2007-1 Aggregate (P S dated January 24, 2007)	Zero (S-24)	1 24% (Feb, p 11)	2 56% (Apr, p 11)	4 82% (July, p 11)	11 32% (Jan, p 11)	45 39% (May 2011, p 11)
55028CAA3 55028CAB1	LUM 2007-1 Group 1 *Classes I-A-1 and I-A-2 in Group 1 (S-7)	Zero (S-24)	1 14% (Feb, p 13)	2 54% (Apr, p 13)	4 32% (July, p 13)	9 95% (Jan, p 13)	43 19% (May 2011, p 12)



CUSIP	OFFERING	RATE AT CUT- OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
55028CAE5	LUM 2007-1 Group 2 *Class II- A-3 in Group 2 (S- 7)	Zero (S-24)	1 40% (Feb , p 13)	2 59% (Apr , p 13)	5 55% (July, p 13)	13 40% (Jan , p 13)	49 11% (May 2011, p 12)
	MHL 2006-1 Aggregate (P S dated February 17, 2006)		17% (Mar , p 13)	1 89% (May, p 13)	3 03% (Aug , p 13)	5 75% (Feb , p 13)	24 42% (May 2011, p 13)
	MHL 2006-1 Group 1-A1	27% of the mortgage loans were 30 days or more delinquent (S-31)	0% (Mar , p 14)	1 37% (May, p 14)	1 33% (Aug , p 14)	2 18% (Feb , p 14)	18 12% (May 2011, p 15)
	MHL 2006-1 Group 1-A2	26% of the mortgage loans were 30 days or more delinquent (S-47)	27% (Mar , p 14)	2 74% (May, p 14)	4 35% (Aug , p 14)	8 05% (Feb , p 14)	23 14% (May 2011, p 15)
61915RCL8	MHL 2006-1 Group 2 *Class 2- A-1C in Group 2 (S-8)	34% of the mortgage loans were 30 days or more delinquent (S-54)	18% (Mar , p 15)	1 30% (May, p 15)	2 80% (Aug , p 15)	5 91% (Feb , p 15)	31 62% (May 2011, p 14)
	NHELI 2007-1 Aggregate (P S dated January 29, 2007)	Zero (S-57)	16% (Feb , p 13)	5 05% (Apr , p 13)	11 90% (July, p 13)	24 01% (Jan , p 13)	46 39% (May 2011, p 13)
65537KAB6 65537KAC4	NHELI 2007-1 Group 2 *Classes 2-A-1A and 2-A- 1B in Group 2 (S- i)	Zero (S-57)	19% (Feb , p 14)	7 00% (Apr , p 15)	14 26% (July, p 15)	27 54% (Jan , p 15)	47 53% (May 2011, p 14)

CUSIP	OFFERING	RATE AT CUT- OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	SVHE 2005-OPT4 Aggregate (P S dated November 22, 2005)	Zero (37)	12% (Dec , p 12)	1 87% (Feb , p 12)	04% (May, p 11)	8 51% (Nov , p 11)	36 08% (May 2011, p 12)
83611MJM1	SVHE 2005-OPT4 Group 1 *Classes M-1 and M-2 in Groups 1 and 2 (S- 68)	Zero (37)	05% (Dec , p 13)	2 13% (Feb , p 13)	3 34% (May, p 12)	9 3% (Nov , p 12)	34 35% (May 2011, p 13)
83611MJM1	SVHE 2005-OPT4 Group 2 *Classes M-1 and M-2 in Groups 1 and 2 (S- 68)	Zero (37)	2% (Dec , p 14)	1 6% (Feb , p 14)	2 72% (May, p 13)	7 71% (Nov , p 13)	37 66% (May 2011, p 14)
92978GAC3	WMLT 2006- ALT1 (P S dated December 19, 2006)	Zero (S-32)	94% (Jan , p 14)	2 13% (Mar , p 14)	4 14% (June, p 14)	10 84% (Dec , p 14)	31 95% (May 2011, p 12)

71. This early spike in delinquencies and defaults, which occurred almost immediately after these RMBS were purchased by WesCorp, was later discovered to be indicative of the Originators' systematic disregard of their stated underwriting guidelines.

72. The phenomenon of borrower default shortly after origination of the loans is known as "Early Payment Default." Early Payment Default evidences borrower misrepresentations and other misinformation in the origination process resulting from the systematic failure of the Originators to apply the underwriting guidelines described in the Offering Documents.

1           73. A November 2008 Federal Reserve Board study attributed the rise in  
2 defaults, in part, to “[d]eteriorating lending standards,” and posited that “the surge in  
3 early payment defaults suggests that underwriting . . . deteriorated on dimensions that  
4 were less readily apparent to investors.” Christopher J. Mayer *et al.*, *The Rise in Mortgage*  
5 *Defaults* 15-16 (Fed. Reserve Bd. Fin. & Econ. Discussion Series, Paper No. 2008-59).

6           74. In January 2011, the Financial Stability Oversight Council, chaired by  
7 United States Treasury Secretary Timothy Geithner, issued a report analyzing the  
8 effects of risk retention requirements in mortgage lending on the broader economy.  
9 *See* FIN. STABILITY OVERSIGHT COUNCIL, MACROECONOMIC EFFECTS OF RISK  
10 RETENTION REQUIREMENTS (2011) (“FSOC Risk Retention Report”). The FSOC  
11 Risk Retention Report focused on stabilizing the mortgage lending industry through  
12 larger risk retention requirements in the industry that can “incent better lending  
13 decisions” and “help to mitigate some of the pro-cyclical effects securitization may  
14 have on the economy.” *Id.* at 2.

15           75. The FSOC Risk Retention Report observed that the securitization  
16 process often incentivizes poor underwriting by shifting the risk of default from the  
17 originators to the investors, while obscuring critical information concerning the actual  
18 nature of the risk. The FSOC Risk Retention Report stated:

19           The securitization process involves multiple parties with varying  
20 incentives and information, thereby breaking down the traditional direct  
21 relationship between borrower and lender. The party setting  
22 underwriting standards and making lending decisions (the originator) and  
23 the party making structuring decisions (the securitizer) are often exposed  
24 to minimal or no credit risk. By contrast, the party that is most exposed  
25 to credit risk (the investor) often has less influence over underwriting  
26 standards and may have less information about the borrower. As a result,  
27 originators and securitizers that do not retain risk can, at least in the short  
28 run, maximize their own returns by lowering loan underwriting standards

in ways that investors may have difficulty detecting. The originate-to-distribute model, as it was conducted, exacerbated this weakness by compensating originators and securitizers based on volume, rather than on quality.

*Id.* at 3.

76. Indeed, originators that wrote a high percentage of their loans for distribution were more likely to disregard underwriting standards, resulting in poorly performing mortgages, in contrast to originators that originated and then held most of their loans.

77. High OTD originators profited from mortgage origination fees without bearing the risks of borrower default or insufficient collateral in the event of a default. Divorced from these risks, high OTD originators were incentivized to push loan quantity over quality.

78. Table 6 (*infra*) shows the percentage of loans originated for distribution relative to all the loans made by the Originator for the years 2005, 2006, and 2007, for those Originators in this Complaint with high OTD percentages. The data was obtained from the Home Mortgage Disclosure Act database.

**Table 6**

Originator	OTD % 2005	OTD % 2006	OTD % 2007
American Home Mortgage Corp	91.9	62.4	
American Home Mortgage Investment Corp	100	100	100
Countrywide Home Loans, Inc	98.5	96.5	98.4
First Federal Bank of California	0	20.6	54.3
First National Bank of Nevada	88.0	79.8	89.4
IndyMac Bank, F S B	81.1	87.7	82.8
Kay-Co Investment Inc dba Pro30 Funding		99.4	
Metrocities Mortgage, LLC	99.96	100	100
MortgageIT, Inc	55.5	98.8	100
Option One Mortgage Corporation	92.2	72.7	58.2
Paul Financial, LLC	85.2	83.4	99.1
Residential Mortgage Capital	99.9	100	100

**B. The Surge in Actual Versus Expected Cumulative Losses Is Evidence of the Originators' Systematic Disregard of Underwriting Standards**

79. The actual defaults in the mortgage pools underlying the RMBS WesCorp purchased exceeded expected defaults so quickly and by so wide a margin that a significant portion of the mortgages could not have been underwritten as represented in the Offering Documents.

80. Every month, the RMBS trustee reports the number and outstanding balance of all loans in the mortgage pools that have defaulted. The running total of this cumulative default balance is referred to as the "gross loss."

81. When defaulted loans are foreclosed upon, the proceeds from the foreclosures are distributed to the investors and any shortfall on the defaulted loan balances is realized as a loss. The running total of this cumulative realized loss (defaulted loan balance minus recovery in foreclosure) is referred to as the "net loss."

82. "Actual loss" is the economic loss the mortgage pool experiences in fact. So "actual gross loss" is the actual cumulative sum of the balance of the loans in default for a particular security. Likewise, "actual net loss" is the actual cumulative realized loss on defaulted loans after foreclosure.

83. At the time a security is rated, the rating agency calculates an amount of "expected loss" using a model based on historical performance of similar securities. So "expected gross loss" is the expected cumulative sum of the balance of the loans in default for a particular security. Likewise, "expected net loss" is the expected cumulative realized loss on defaulted loans after foreclosure. The amount of expected net loss drives the credit ratings assigned to the various tranches of RMBS.

84. Each credit rating has a "rating factor," which can be expressed in multiples of the amount of credit enhancement over expected net loss (in equation form:  $CE/ENL = RF$ ). Thus, the rating factor expresses how many times the

1 expected net loss is covered by credit enhancement. A “triple-A” rated security would  
2 have a rating factor of “5,” so would require credit enhancement of five times the  
3 amount of the expected net loss. A “double-A rating” would have a rating factor of  
4 “4,” and thus would require credit enhancement equaling four times the expected net  
5 loss. A “single-A” rating would have a rating factor of “3” and would require credit  
6 enhancement of three times expected net loss. A “Baa” rating would require credit  
7 enhancement of 2—1.5 times expected net loss, and a “Ba” rating or lower requires  
8 some amount of credit enhancement less than 1.5 times expected net loss.

9 85. Accordingly, by working backwards from this equation, one can infer  
10 expected net loss in an already-issued offering. For example, assume there is a \$100  
11 million offering backed by \$100 million of assets, with a triple-A rated senior tranche  
12 with a principal balance of \$75 million. This means the non-senior tranches, in  
13 aggregate, have a principal balance of \$25 million. The \$25 million amount of the  
14 non-senior tranches in this hypothetical offering serves as the credit enhancement for  
15 the senior tranche. Therefore, on our hypothetical \$100 million offering, the expected  
16 net loss would be \$5 million, which is the amount of the credit enhancement on the  
17 triple-A rated senior tranche—\$25 million—divided by the rating factor for triple-A  
18 rated securities—5. The following equation illustrates:  $\$25,000,000/5 = \$5,000,000$ .

19 86. Expected gross loss can be then mathematically derived by applying an  
20 “expected recovery rate” to the expected net loss ( $EGL = ENL/(1 - ERR)$ ).

21 87. A comparison of actual gross losses to expected gross losses for a  
22 particular security can be made graphically by plotting the actual versus expected loss  
23 data on a line graph. Figure 2 (*infra*) is a series of such line graphs. Figure 2 illustrates  
24 the actual gross loss (again, actual defaults) for the pools backing the RMBS purchased  
25 by WesCorp experienced in the first 12 months after issuance compared to the  
26 expected gross loss (again, expected defaults) for those pools during the same time  
27 period.  
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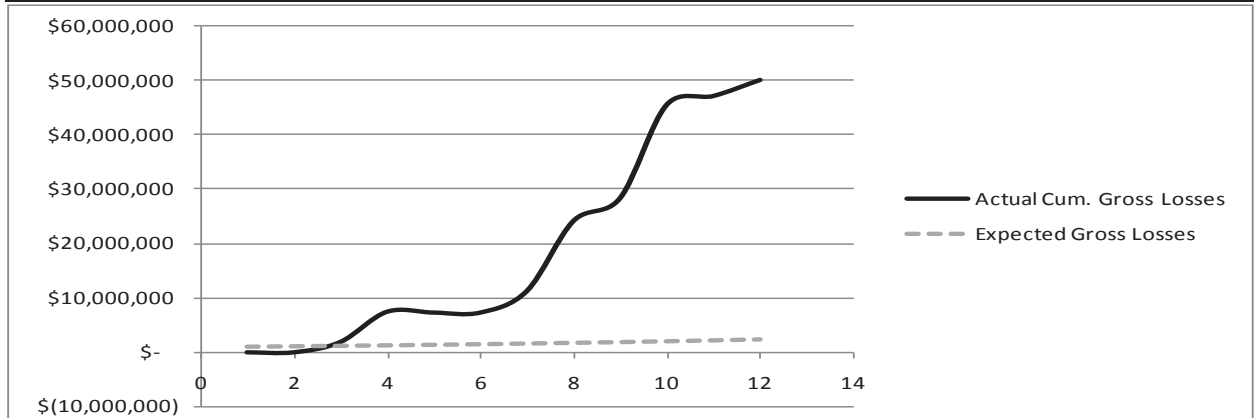
1           88. The actual gross loss data in Figure 2 (*infra*) was obtained from ABSNET,  
2 a resource for asset-backed securities related data. The expected gross losses were  
3 calculated by “grossing up” the rating-implied expected net losses using an expected  
4 recovery rate of 85%.

5           89. As the graphs show, the actual gross losses (the solid lines) far exceeded  
6 the expected gross losses (the dotted lines) for the period analyzed. That means that  
7 the actual balance of defaulted loans in the first 12 months following issuance far  
8 exceeded the expected balance of defaulted loans based on historical performance.  
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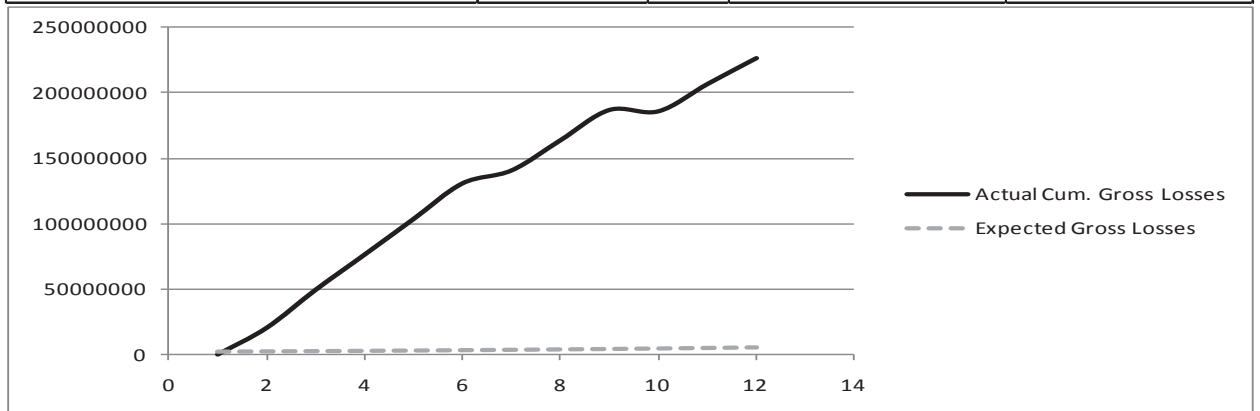


Figure 2

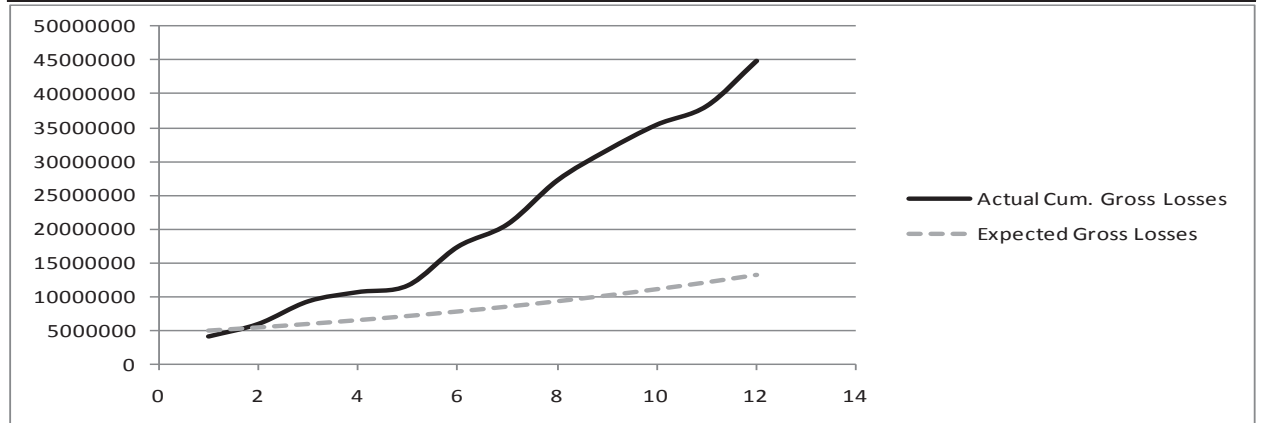
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Alternative Loan Trust 2006-AR4	39723	1	\$ -	\$ 881,637
Alternative Loan Trust 2006-AR4	39723	2	\$ -	\$ 962,968
Alternative Loan Trust 2006-AR4	39723	3	\$ 1,901,772	\$ 1,051,631
Alternative Loan Trust 2006-AR4	39723	4	\$ 7,464,605	\$ 1,148,255
Alternative Loan Trust 2006-AR4	39723	5	\$ 7,310,855	\$ 1,253,515
Alternative Loan Trust 2006-AR4	39723	6	\$ 7,310,855	\$ 1,368,137
Alternative Loan Trust 2006-AR4	39723	7	\$ 11,290,671	\$ 1,492,899
Alternative Loan Trust 2006-AR4	39723	8	\$ 24,181,875	\$ 1,628,633
Alternative Loan Trust 2006-AR4	39723	9	\$ 28,385,840	\$ 1,776,228
Alternative Loan Trust 2006-AR4	39723	10	\$ 45,560,714	\$ 1,936,629
Alternative Loan Trust 2006-AR4	39723	11	\$ 47,163,113	\$ 2,110,842
Alternative Loan Trust 2006-AR4	39723	12	\$ 50,115,861	\$ 2,299,928



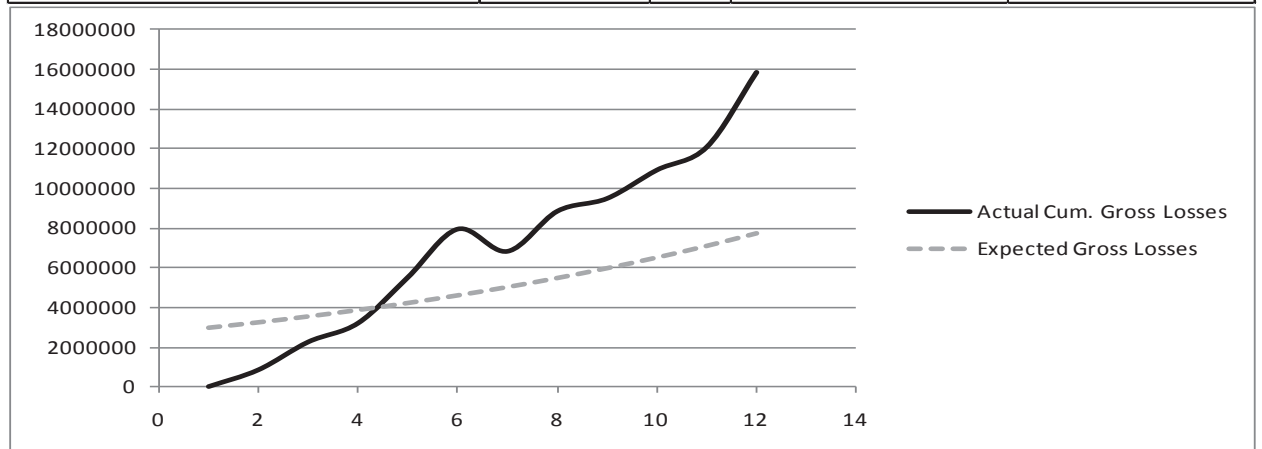
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
American Home Mortgage Assets Trust 2007-3	41708	1	\$ -	\$ 2,232,609
American Home Mortgage Assets Trust 2007-3	41708	2	\$ 20,399,980	\$ 2,438,567
American Home Mortgage Assets Trust 2007-3	41708	3	\$ 49,464,549	\$ 2,663,093
American Home Mortgage Assets Trust 2007-3	41708	4	\$ 76,378,883	\$ 2,907,778
American Home Mortgage Assets Trust 2007-3	41708	5	\$ 103,617,642	\$ 3,174,333
American Home Mortgage Assets Trust 2007-3	41708	6	\$ 130,873,934	\$ 3,464,595
American Home Mortgage Assets Trust 2007-3	41708	7	\$ 140,742,932	\$ 3,780,536
American Home Mortgage Assets Trust 2007-3	41708	8	\$ 163,847,101	\$ 4,124,262
American Home Mortgage Assets Trust 2007-3	41708	9	\$ 187,001,069	\$ 4,498,024
American Home Mortgage Assets Trust 2007-3	41708	10	\$ 185,965,334	\$ 4,904,215
American Home Mortgage Assets Trust 2007-3	41708	11	\$ 206,785,530	\$ 5,345,381
American Home Mortgage Assets Trust 2007-3	41708	12	\$ 226,605,691	\$ 5,824,213



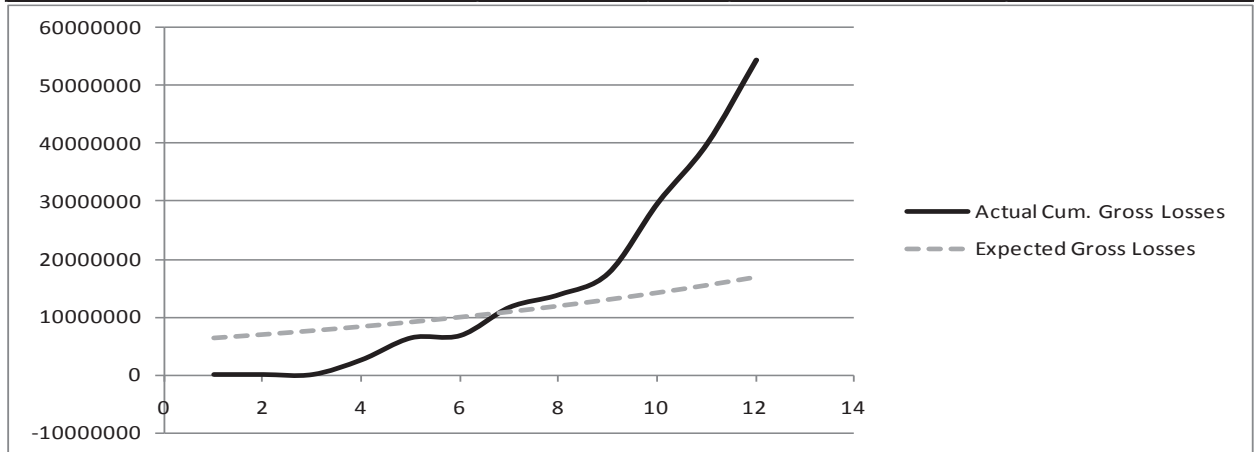
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
First Franklin Mortgage Loan Trust 2005-FFH4	36028	1	\$ 4,157,138	\$ 5,089,278
First Franklin Mortgage Loan Trust 2005-FFH4	36028	2	\$ 6,017,078	\$ 5,558,764
First Franklin Mortgage Loan Trust 2005-FFH4	36028	3	\$ 9,357,150	\$ 6,070,576
First Franklin Mortgage Loan Trust 2005-FFH4	36028	4	\$ 10,723,986	\$ 6,628,339
First Franklin Mortgage Loan Trust 2005-FFH4	36028	5	\$ 11,705,031	\$ 7,235,956
First Franklin Mortgage Loan Trust 2005-FFH4	36028	6	\$ 17,425,209	\$ 7,897,616
First Franklin Mortgage Loan Trust 2005-FFH4	36028	7	\$ 20,756,714	\$ 8,617,809
First Franklin Mortgage Loan Trust 2005-FFH4	36028	8	\$ 27,245,055	\$ 9,401,340
First Franklin Mortgage Loan Trust 2005-FFH4	36028	9	\$ 31,707,712	\$ 10,253,337
First Franklin Mortgage Loan Trust 2005-FFH4	36028	10	\$ 35,498,901	\$ 11,179,259
First Franklin Mortgage Loan Trust 2005-FFH4	36028	11	\$ 38,255,707	\$ 12,184,906
First Franklin Mortgage Loan Trust 2005-FFH4	36028	12	\$ 44,937,612	\$ 13,276,413



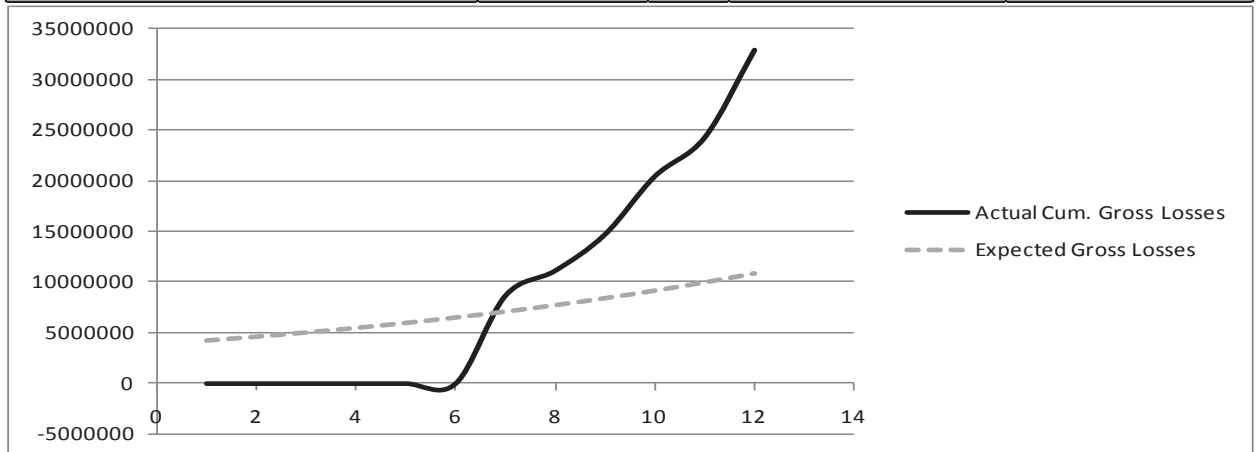
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2006-8	38787	1	\$ -	\$ 2,969,076
HarborView 2006-8	38787	2	\$ 844,510	\$ 3,242,974
HarborView 2006-8	38787	3	\$ 2,248,223	\$ 3,541,564
HarborView 2006-8	38787	4	\$ 3,195,493	\$ 3,866,962
HarborView 2006-8	38787	5	\$ 5,503,145	\$ 4,221,445
HarborView 2006-8	38787	6	\$ 7,929,141	\$ 4,607,456
HarborView 2006-8	38787	7	\$ 6,810,649	\$ 5,027,615
HarborView 2006-8	38787	8	\$ 8,830,028	\$ 5,484,726
HarborView 2006-8	38787	9	\$ 9,472,044	\$ 5,981,780
HarborView 2006-8	38787	10	\$ 10,903,395	\$ 6,521,962
HarborView 2006-8	38787	11	\$ 12,058,271	\$ 7,108,654
HarborView 2006-8	38787	12	\$ 15,824,121	\$ 7,745,437



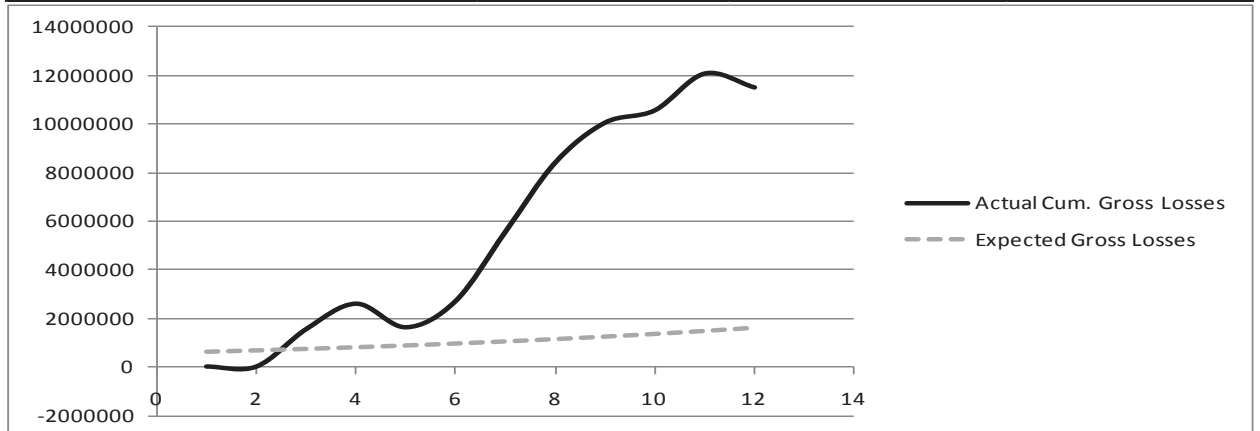
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2006-9	39173	1	\$ -	\$ 6,428,529
HarborView 2006-9	39173	2	\$ -	\$ 7,021,561
HarborView 2006-9	39173	3	\$ -	\$ 7,668,057
HarborView 2006-9	39173	4	\$ 2,570,574	\$ 8,372,597
HarborView 2006-9	39173	5	\$ 6,353,042	\$ 9,140,109
HarborView 2006-9	39173	6	\$ 6,758,658	\$ 9,975,885
HarborView 2006-9	39173	7	\$ 11,655,574	\$ 10,885,598
HarborView 2006-9	39173	8	\$ 13,825,145	\$ 11,875,316
HarborView 2006-9	39173	9	\$ 17,538,934	\$ 12,951,517
HarborView 2006-9	39173	10	\$ 29,668,715	\$ 14,121,098
HarborView 2006-9	39173	11	\$ 39,916,025	\$ 15,391,381
HarborView 2006-9	39173	12	\$ 54,441,864	\$ 16,770,120



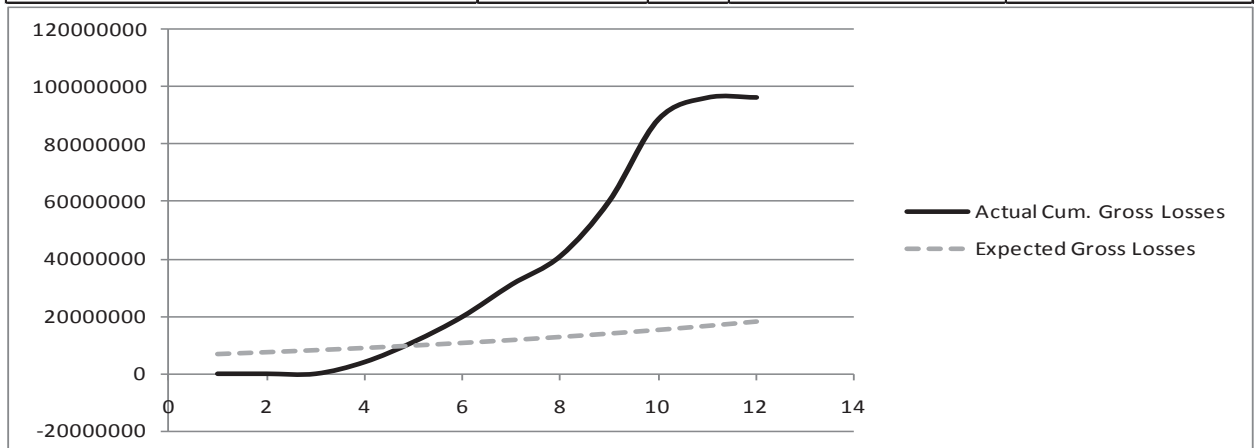
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2006-10	39466	1	\$ -	\$ 4,146,641
HarborView 2006-10	39466	2	\$ -	\$ 4,529,169
HarborView 2006-10	39466	3	\$ -	\$ 4,946,182
HarborView 2006-10	39466	4	\$ -	\$ 5,400,637
HarborView 2006-10	39466	5	\$ -	\$ 5,895,711
HarborView 2006-10	39466	6	\$ -	\$ 6,434,818
HarborView 2006-10	39466	7	\$ 8,680,070	\$ 7,021,616
HarborView 2006-10	39466	8	\$ 11,141,881	\$ 7,660,021
HarborView 2006-10	39466	9	\$ 14,725,771	\$ 8,354,211
HarborView 2006-10	39466	10	\$ 20,454,135	\$ 9,108,634
HarborView 2006-10	39466	11	\$ 24,280,421	\$ 9,928,015
HarborView 2006-10	39466	12	\$ 32,908,115	\$ 10,817,352



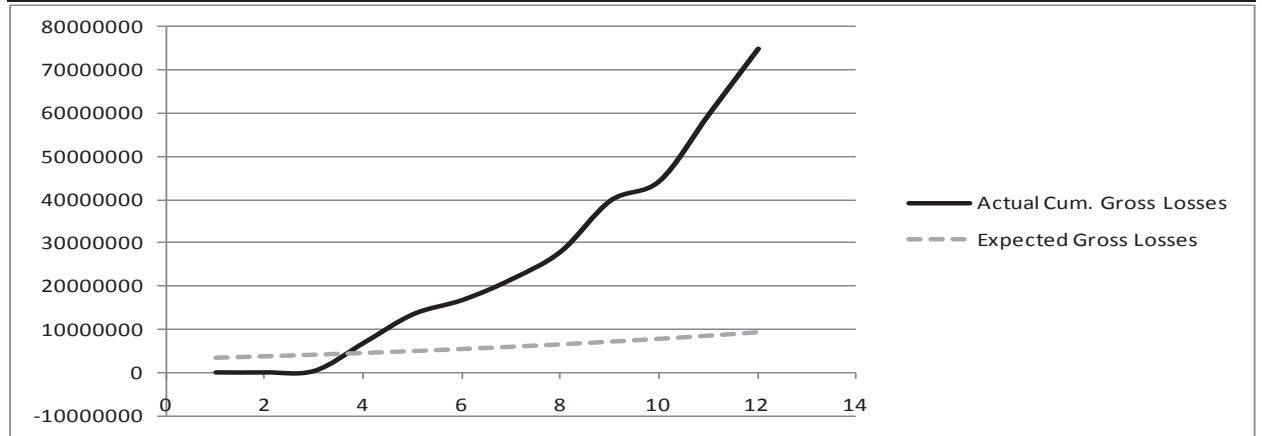
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2006-11	39604	1	\$ -	\$ 620,128
HarborView 2006-11	39604	2	\$ -	\$ 677,335
HarborView 2006-11	39604	3	\$ 1,541,596	\$ 739,700
HarborView 2006-11	39604	4	\$ 2,586,325	\$ 807,663
HarborView 2006-11	39604	5	\$ 1,614,729	\$ 881,701
HarborView 2006-11	39604	6	\$ 2,697,387	\$ 962,324
HarborView 2006-11	39604	7	\$ 5,548,956	\$ 1,050,080
HarborView 2006-11	39604	8	\$ 8,395,221	\$ 1,145,553
HarborView 2006-11	39604	9	\$ 10,039,321	\$ 1,249,369
HarborView 2006-11	39604	10	\$ 10,546,521	\$ 1,362,193
HarborView 2006-11	39604	11	\$ 12,059,557	\$ 1,484,731
HarborView 2006-11	39604	12	\$ 11,489,433	\$ 1,617,731



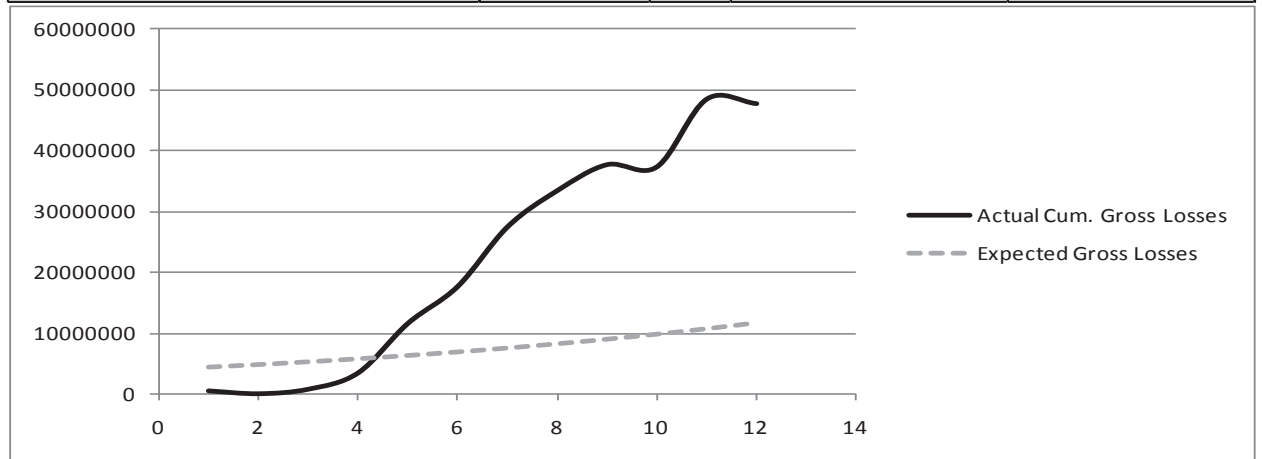
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2006-12	39654	1	\$ -	\$ 6,998,409
HarborView 2006-12	39654	2	\$ -	\$ 7,644,013
HarborView 2006-12	39654	3	\$ -	\$ 8,347,820
HarborView 2006-12	39654	4	\$ 4,084,060	\$ 9,114,816
HarborView 2006-12	39654	5	\$ 11,094,460	\$ 9,950,367
HarborView 2006-12	39654	6	\$ 19,896,280	\$ 10,860,234
HarborView 2006-12	39654	7	\$ 31,022,567	\$ 11,850,591
HarborView 2006-12	39654	8	\$ 40,963,688	\$ 12,928,047
HarborView 2006-12	39654	9	\$ 60,192,493	\$ 14,099,652
HarborView 2006-12	39654	10	\$ 88,526,405	\$ 15,372,914
HarborView 2006-12	39654	11	\$ 96,055,571	\$ 16,755,807
HarborView 2006-12	39654	12	\$ 96,131,151	\$ 18,256,769



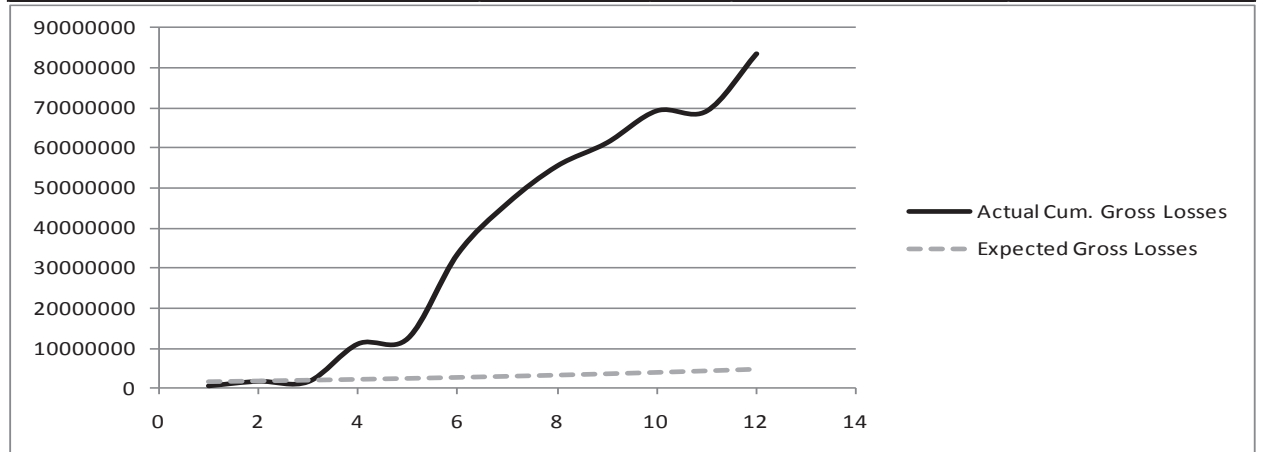
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2006-14	39668	1	\$ -	\$ 3,574,654
HarborView 2006-14	39668	2	\$ -	\$ 3,904,416
HarborView 2006-14	39668	3	\$ 368,396	\$ 4,263,907
HarborView 2006-14	39668	4	\$ 6,858,408	\$ 4,655,674
HarborView 2006-14	39668	5	\$ 13,473,277	\$ 5,082,458
HarborView 2006-14	39668	6	\$ 16,771,582	\$ 5,547,200
HarborView 2006-14	39668	7	\$ 21,587,406	\$ 6,053,056
HarborView 2006-14	39668	8	\$ 28,030,117	\$ 6,603,399
HarborView 2006-14	39668	9	\$ 39,750,069	\$ 7,201,833
HarborView 2006-14	39668	10	\$ 44,347,316	\$ 7,852,191
HarborView 2006-14	39668	11	\$ 59,770,494	\$ 8,558,546
HarborView 2006-14	39668	12	\$ 74,945,944	\$ 9,325,209



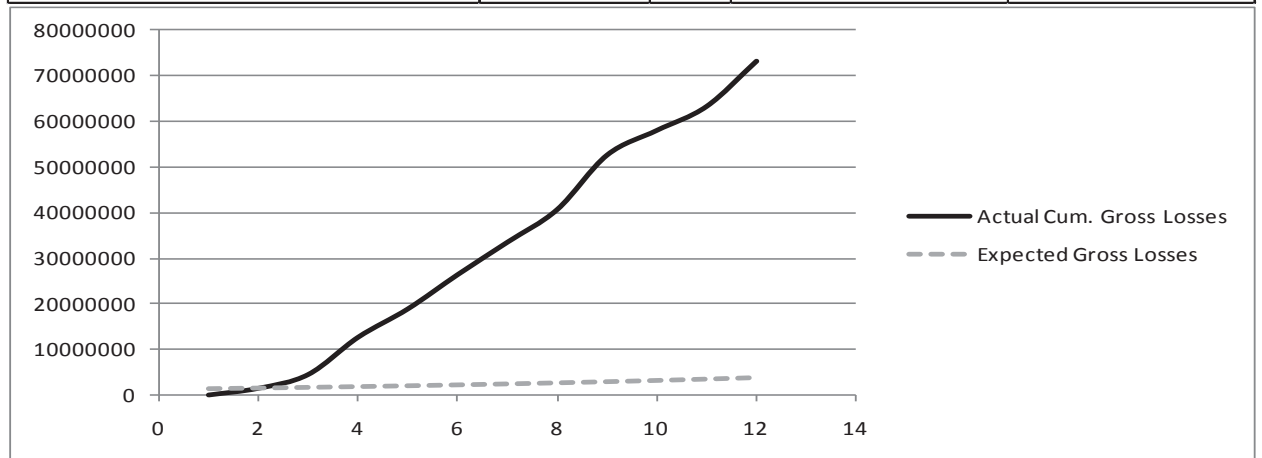
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2007-1	40906	1	\$ 470,016	\$ 4,486,867
HarborView 2007-1	40906	2	\$ -	\$ 4,900,781
HarborView 2007-1	40906	3	\$ 740,974	\$ 5,352,010
HarborView 2007-1	40906	4	\$ 3,422,669	\$ 5,843,752
HarborView 2007-1	40906	5	\$ 11,572,487	\$ 6,379,446
HarborView 2007-1	40906	6	\$ 17,645,257	\$ 6,962,786
HarborView 2007-1	40906	7	\$ 27,455,285	\$ 7,597,731
HarborView 2007-1	40906	8	\$ 33,429,089	\$ 8,288,517
HarborView 2007-1	40906	9	\$ 37,706,844	\$ 9,039,664
HarborView 2007-1	40906	10	\$ 37,339,557	\$ 9,855,987
HarborView 2007-1	40906	11	\$ 48,483,984	\$ 10,742,596
HarborView 2007-1	40906	12	\$ 47,750,914	\$ 11,704,903



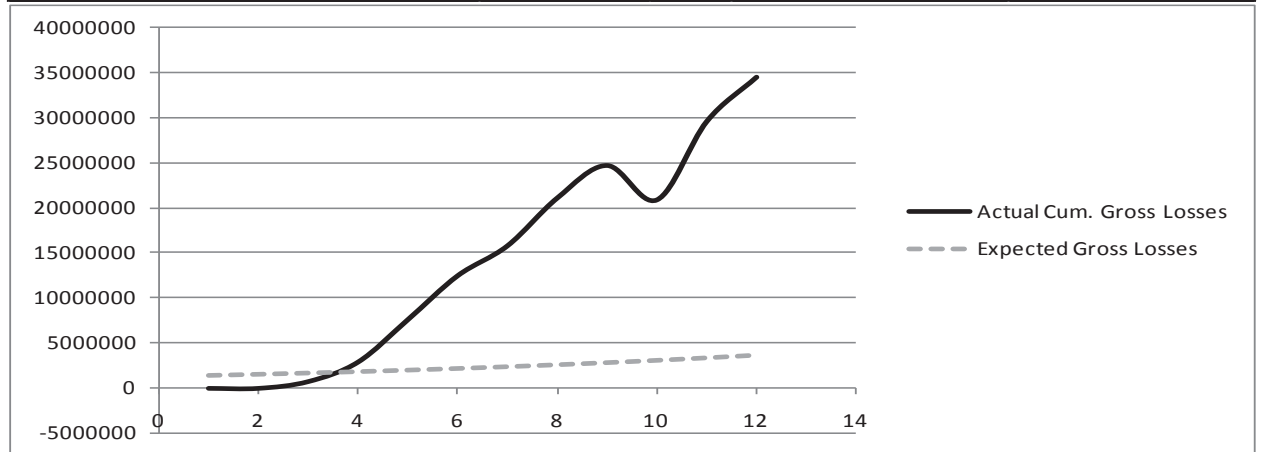
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2007-2	40907	1	\$ 647,551	\$ 1,785,903
HarborView 2007-2	40907	2	\$ 1,783,440	\$ 1,950,652
HarborView 2007-2	40907	3	\$ 1,699,532	\$ 2,130,255
HarborView 2007-2	40907	4	\$ 11,140,763	\$ 2,325,982
HarborView 2007-2	40907	5	\$ 12,498,521	\$ 2,539,204
HarborView 2007-2	40907	6	\$ 33,584,483	\$ 2,771,390
HarborView 2007-2	40907	7	\$ 46,188,913	\$ 3,024,116
HarborView 2007-2	40907	8	\$ 55,536,048	\$ 3,299,069
HarborView 2007-2	40907	9	\$ 61,318,518	\$ 3,598,047
HarborView 2007-2	40907	10	\$ 69,284,016	\$ 3,922,967
HarborView 2007-2	40907	11	\$ 69,215,449	\$ 4,275,863
HarborView 2007-2	40907	12	\$ 83,515,196	\$ 4,658,889



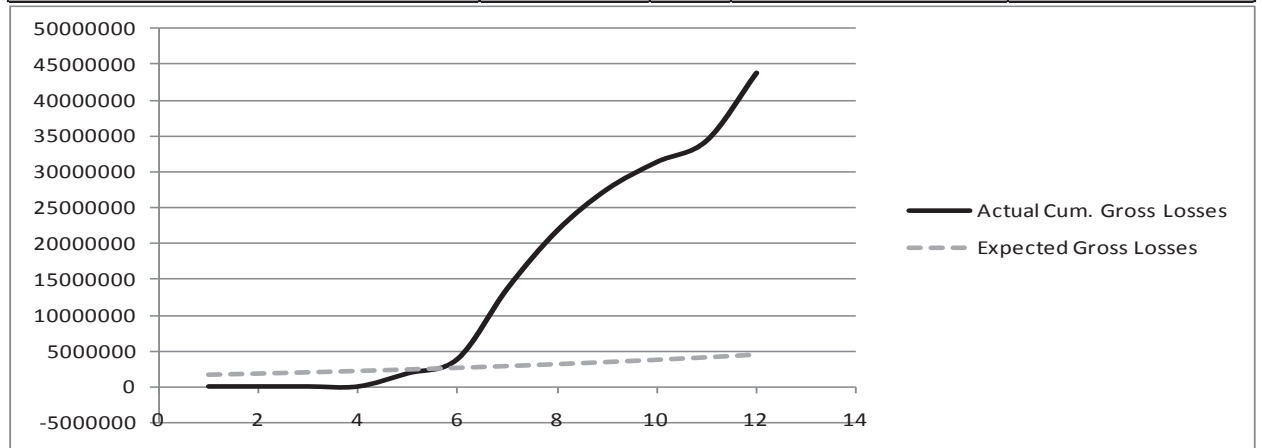
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2007-4	41472	1	\$ -	\$ 1,484,815
HarborView 2007-4	41472	2	\$ 1,475,896	\$ 1,621,790
HarborView 2007-4	41472	3	\$ 4,503,163	\$ 1,771,113
HarborView 2007-4	41472	4	\$ 12,670,740	\$ 1,933,842
HarborView 2007-4	41472	5	\$ 18,897,311	\$ 2,111,117
HarborView 2007-4	41472	6	\$ 26,420,698	\$ 2,304,158
HarborView 2007-4	41472	7	\$ 33,546,631	\$ 2,514,277
HarborView 2007-4	41472	8	\$ 40,719,514	\$ 2,742,875
HarborView 2007-4	41472	9	\$ 52,660,914	\$ 2,991,449
HarborView 2007-4	41472	10	\$ 58,084,757	\$ 3,261,590
HarborView 2007-4	41472	11	\$ 63,355,076	\$ 3,554,991
HarborView 2007-4	41472	12	\$ 73,274,190	\$ 3,873,442



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
HarborView 2007-5	41776	1	\$ -	\$ 1,359,786
HarborView 2007-5	41776	2	\$ -	\$ 1,485,226
HarborView 2007-5	41776	3	\$ 751,500	\$ 1,621,975
HarborView 2007-5	41776	4	\$ 2,920,614	\$ 1,771,002
HarborView 2007-5	41776	5	\$ 7,632,190	\$ 1,933,349
HarborView 2007-5	41776	6	\$ 12,511,060	\$ 2,110,135
HarborView 2007-5	41776	7	\$ 15,835,944	\$ 2,302,561
HarborView 2007-5	41776	8	\$ 21,143,592	\$ 2,511,910
HarborView 2007-5	41776	9	\$ 24,750,664	\$ 2,739,552
HarborView 2007-5	41776	10	\$ 20,932,966	\$ 2,986,945
HarborView 2007-5	41776	11	\$ 29,635,152	\$ 3,255,640
HarborView 2007-5	41776	12	\$ 34,563,869	\$ 3,547,276

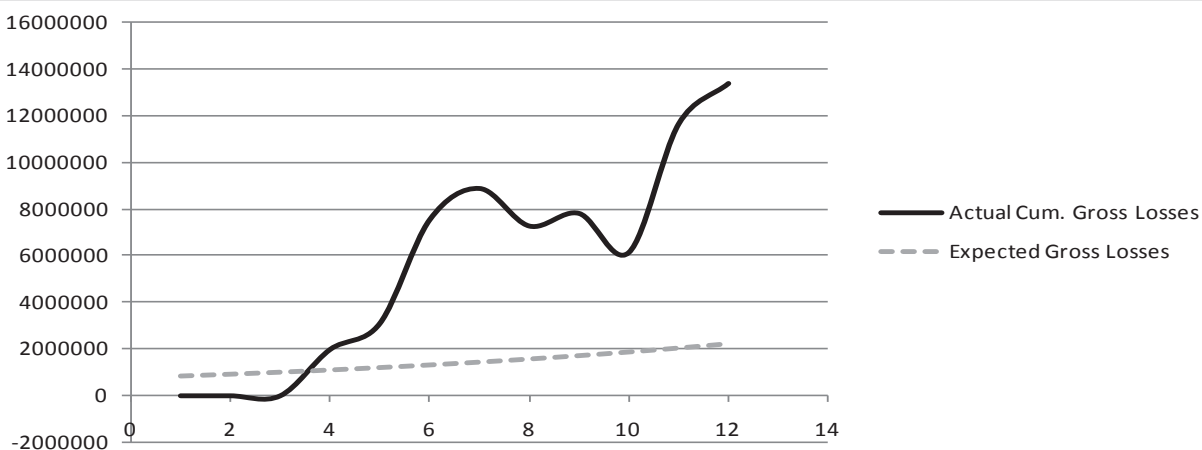


Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	1	\$ -	\$ 1,734,368
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	2	\$ -	\$ 1,894,364
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	3	\$ -	\$ 2,068,783
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	4	\$ -	\$ 2,258,863
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	5	\$ 1,848,000	\$ 2,465,932
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	6	\$ 3,866,023	\$ 2,691,418
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	7	\$ 13,740,659	\$ 2,936,851
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	8	\$ 21,838,012	\$ 3,203,870
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	9	\$ 27,603,649	\$ 3,494,221
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	10	\$ 31,428,103	\$ 3,809,765
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	11	\$ 34,423,595	\$ 4,152,477
IndyMac INDX Mortgage Loan Trust 2006-AR35	40677	12	\$ 43,899,521	\$ 4,524,450

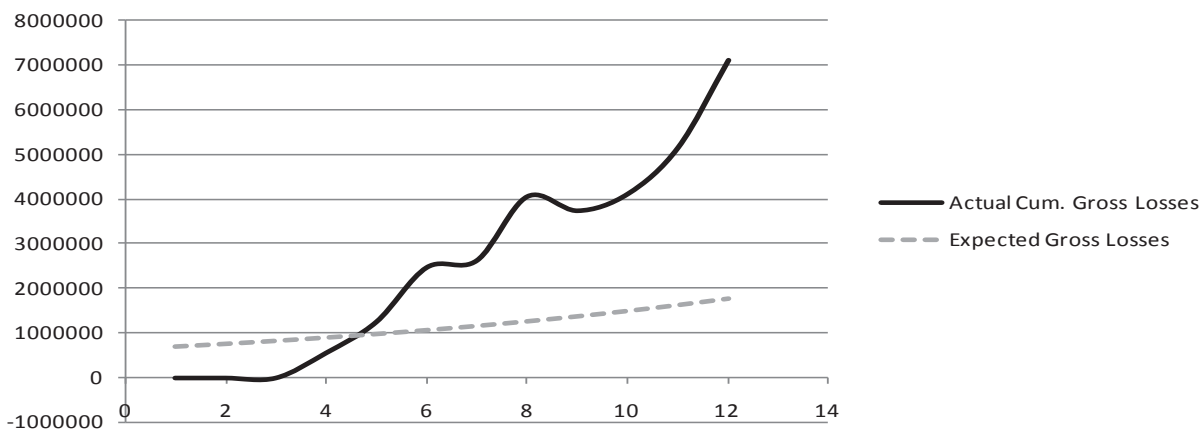




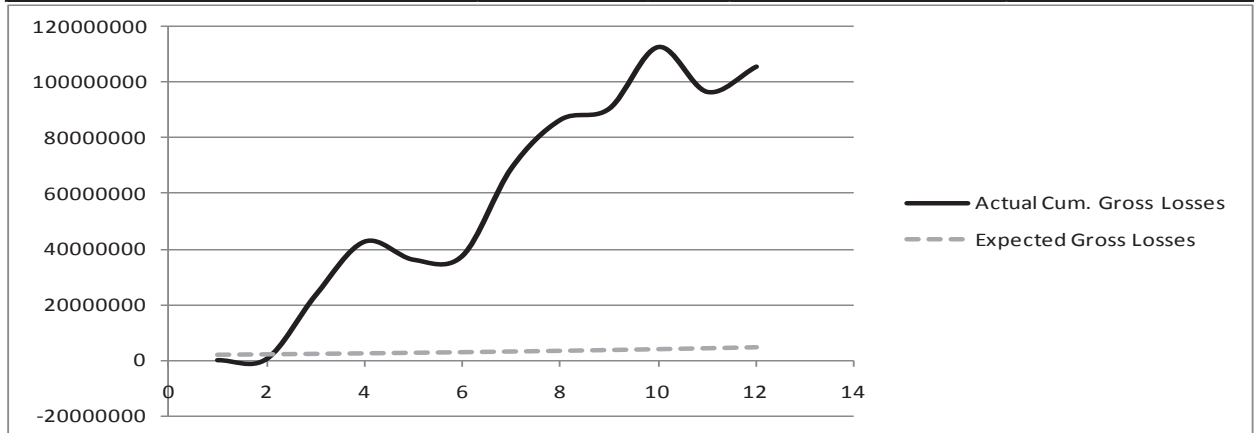
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Luminent Mortgage Trust 2007-1	40299	1	\$ -	\$ 837,607
Luminent Mortgage Trust 2007-1	40299	2	\$ -	\$ 914,876
Luminent Mortgage Trust 2007-1	40299	3	\$ -	\$ 999,112
Luminent Mortgage Trust 2007-1	40299	4	\$ 1,982,522	\$ 1,090,910
Luminent Mortgage Trust 2007-1	40299	5	\$ 3,098,851	\$ 1,190,913
Luminent Mortgage Trust 2007-1	40299	6	\$ 7,535,538	\$ 1,299,811
Luminent Mortgage Trust 2007-1	40299	7	\$ 8,877,706	\$ 1,418,342
Luminent Mortgage Trust 2007-1	40299	8	\$ 7,269,659	\$ 1,547,298
Luminent Mortgage Trust 2007-1	40299	9	\$ 7,809,257	\$ 1,687,522
Luminent Mortgage Trust 2007-1	40299	10	\$ 6,135,975	\$ 1,839,912
Luminent Mortgage Trust 2007-1	40299	11	\$ 11,639,877	\$ 2,005,424
Luminent Mortgage Trust 2007-1	40299	12	\$ 13,374,400	\$ 2,185,068



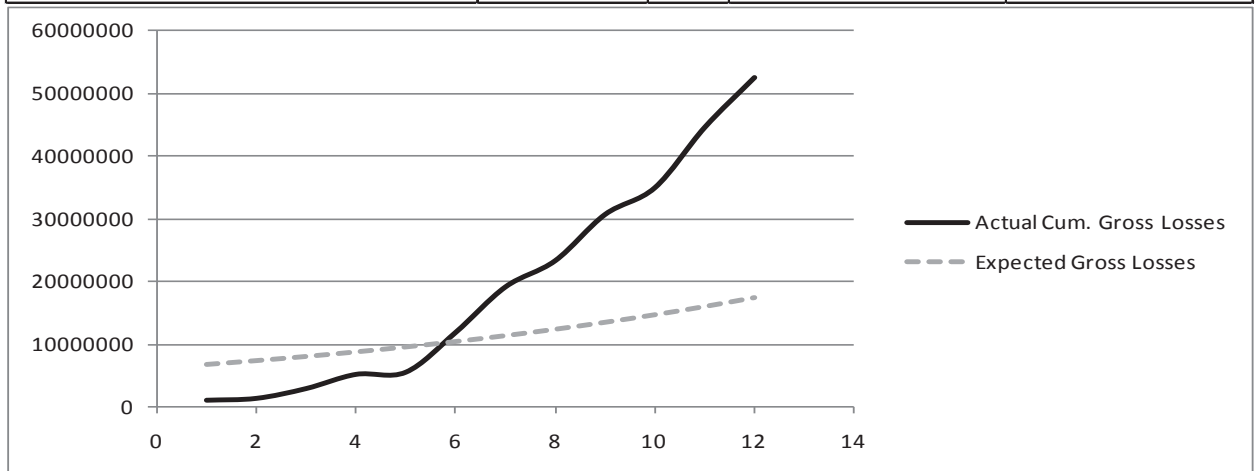
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
MortgageIT Mortgage Loan Trust 2006-1	36837	1	\$ -	\$ 676,065.76
MortgageIT Mortgage Loan Trust 2006-1	36837	2	\$ -	\$ 738,432.90
MortgageIT Mortgage Loan Trust 2006-1	36837	3	\$ -	\$ 806,422.58
MortgageIT Mortgage Loan Trust 2006-1	36837	4	\$ 560,000.00	\$ 880,516.57
MortgageIT Mortgage Loan Trust 2006-1	36837	5	\$ 1,254,257.17	\$ 961,233.11
MortgageIT Mortgage Loan Trust 2006-1	36837	6	\$ 2,470,257.89	\$ 1,049,128.74
MortgageIT Mortgage Loan Trust 2006-1	36837	7	\$ 2,628,457.17	\$ 1,144,800.05
MortgageIT Mortgage Loan Trust 2006-1	36837	8	\$ 4,055,807.17	\$ 1,248,885.24
MortgageIT Mortgage Loan Trust 2006-1	36837	9	\$ 3,738,676.18	\$ 1,362,065.53
MortgageIT Mortgage Loan Trust 2006-1	36837	10	\$ 4,116,310.48	\$ 1,485,066.24
MortgageIT Mortgage Loan Trust 2006-1	36837	11	\$ 5,153,808.11	\$ 1,618,657.50
MortgageIT Mortgage Loan Trust 2006-1	36837	12	\$ 7,103,777.17	\$ 1,763,654.58



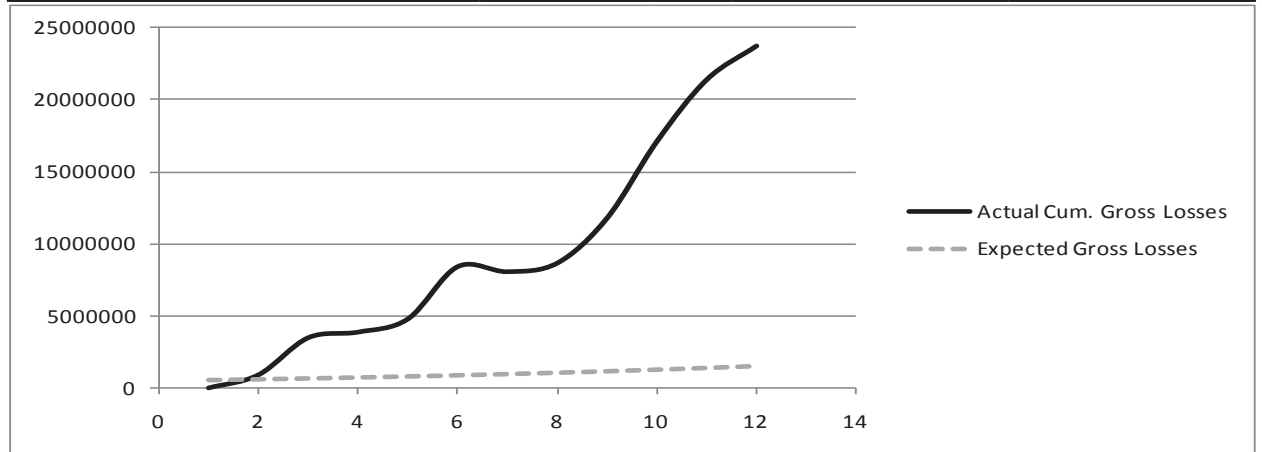
Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Nomura Home Equity Loan Trust Series 2007-1	40291	1	\$ 159,200	\$ 1,737,954
Nomura Home Equity Loan Trust Series 2007-1	40291	2	\$ 619,200	\$ 1,898,280
Nomura Home Equity Loan Trust Series 2007-1	40291	3	\$ 23,542,962	\$ 2,073,060
Nomura Home Equity Loan Trust Series 2007-1	40291	4	\$ 42,794,130	\$ 2,263,533
Nomura Home Equity Loan Trust Series 2007-1	40291	5	\$ 36,287,162	\$ 2,471,030
Nomura Home Equity Loan Trust Series 2007-1	40291	6	\$ 37,717,522	\$ 2,696,982
Nomura Home Equity Loan Trust Series 2007-1	40291	7	\$ 69,224,811	\$ 2,942,923
Nomura Home Equity Loan Trust Series 2007-1	40291	8	\$ 86,609,785	\$ 3,210,493
Nomura Home Equity Loan Trust Series 2007-1	40291	9	\$ 90,655,311	\$ 3,501,444
Nomura Home Equity Loan Trust Series 2007-1	40291	10	\$ 112,784,673	\$ 3,817,641
Nomura Home Equity Loan Trust Series 2007-1	40291	11	\$ 96,635,919	\$ 4,161,062
Nomura Home Equity Loan Trust Series 2007-1	40291	12	\$ 105,724,469	\$ 4,533,804



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Soundview Home Equity Loan Trust 2005-OPT4	36025	1	\$ 1,212,442	\$ 6,716,668
Soundview Home Equity Loan Trust 2005-OPT4	36025	2	\$ 1,512,469	\$ 7,336,281
Soundview Home Equity Loan Trust 2005-OPT4	36025	3	\$ 3,073,678	\$ 8,011,754
Soundview Home Equity Loan Trust 2005-OPT4	36025	4	\$ 5,331,109	\$ 8,747,873
Soundview Home Equity Loan Trust 2005-OPT4	36025	5	\$ 5,676,196	\$ 9,549,786
Soundview Home Equity Loan Trust 2005-OPT4	36025	6	\$ 12,008,162	\$ 10,423,024
Soundview Home Equity Loan Trust 2005-OPT4	36025	7	\$ 19,248,543	\$ 11,373,512
Soundview Home Equity Loan Trust 2005-OPT4	36025	8	\$ 23,426,005	\$ 12,407,591
Soundview Home Equity Loan Trust 2005-OPT4	36025	9	\$ 30,776,311	\$ 13,532,030
Soundview Home Equity Loan Trust 2005-OPT4	36025	10	\$ 35,034,668	\$ 14,754,033
Soundview Home Equity Loan Trust 2005-OPT4	36025	11	\$ 44,624,482	\$ 16,081,254
Soundview Home Equity Loan Trust 2005-OPT4	36025	12	\$ 52,570,998	\$ 17,521,790



Deal Name	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	1	\$ -	\$ 571,225
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	2	\$ 907,000	\$ 623,920
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	3	\$ 3,477,778	\$ 681,366
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	4	\$ 3,865,958	\$ 743,970
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	5	\$ 4,775,290	\$ 812,169
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	6	\$ 8,398,870	\$ 886,435
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	7	\$ 8,047,724	\$ 967,270
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	8	\$ 8,645,036	\$ 1,055,214
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	9	\$ 11,762,701	\$ 1,150,843
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	10	\$ 17,071,099	\$ 1,254,769
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	11	\$ 21,346,144	\$ 1,367,643
Wachovia Mortgage Loan Trust Series 2006-ALT1	40065	12	\$ 23,684,214	\$ 1,490,155



90. As clearly shown in Figure 2 (*supra*), actual losses spiked almost immediately after issuance of the RMBS. Borrowers defaulted on the underlying mortgages soon after loan origination, rapidly eliminating the RMBS's credit enhancement. For example, in the AHMA 2007-3 offering (shown in Figure 2), actual gross losses at month 12 exceeded \$226 million, nearly 39 times the expected gross losses of \$5.8 million.

91. This immediate increase in actual gross losses—at a rate far greater than expected gross losses—is strong evidence that the Originators systematically disregarded the underwriting standards in the Offering Documents.

92. Because credit enhancement is designed to ensure triple-A performance of triple-A rated RMBS, the evidence that credit enhancement has failed (*i.e.*, actual losses swiftly surged past expected losses shortly after the offering) substantiates that a critical number of mortgages in the pool were not written in accordance with the underwriting guidelines stated in the Offering Documents.

**C. The Collapse of the Certificates' Credit Ratings Is Evidence of Systematic Disregard of Underwriting Guidelines**

93. Virtually all of the RMBS WesCorp purchased were rated triple-A at issuance.

94. Moody's and S&P have since downgraded the RMBS WesCorp purchased to well below investment grade (*see supra* Table 4).

95. A rating downgrade is material. The total collapse in the credit ratings of the RMBS WesCorp purchased, typically from triple-A to non-investment speculative grade, is evidence of the Originators' systematic disregard of underwriting guidelines, amplifying that these securities were impaired from the outset.

**D. Revelations Subsequent to the Offerings Show That the Originators Systematically Disregarded Underwriting Standards**

96. Public disclosures subsequent to the issuance of the RMBS reinforce the allegation that the Originators systematically abandoned their stated underwriting guidelines.

**1. The Systematic Disregard of Underwriting Standards Was Pervasive as Revealed After the Collapse**

97. Mortgage originators experienced unprecedented success during the mortgage boom. Yet their success was illusory. As the loans they originated began significantly to underperform, the demand for their products subsided. It became evident that originators had systematically disregarded their underwriting standards.

98. The Office of the Comptroller of the Currency (the "OCC"), an office within the United States Department of the Treasury, published a report in November 2008 listing the "Worst Ten" metropolitan areas with the highest rates of foreclosures and the "Worst Ten" originators with the largest numbers of foreclosures in those areas ("2008 'Worst Ten in the Worst Ten' Report"). In this report, the OCC emphasized the importance of adherence to underwriting standards in mortgage loan origination

1 The quality of the underwriting process—that is, determining through  
2 analysis of the borrower and market conditions that a borrower is highly  
3 likely to be able to repay the loan as promised—is a major determinant of  
4 subsequent loan performance. The quality of underwriting varies across  
5 lenders, a factor that is evident through comparisons of rates of  
6 delinquency, foreclosure, or other loan performance measures across loan  
7 originators.

8 99. Recently, government reports and investigations and newspaper reports  
9 have uncovered the extent of the pervasive abandonment of underwriting standards.  
10 The Permanent Subcommittee on Investigations in the United States Senate (“PSI”)  
11 recently released its report detailing the causes of the financial crisis. Using  
12 Washington Mutual Bank (“WaMu”) as a case study, the PSI concluded through its  
13 investigation:

14 Washington Mutual was far from the only lender that sold poor quality  
15 mortgages and mortgage backed securities that undermined U.S. financial  
16 markets. The Subcommittee investigation indicates that Washington  
17 Mutual was emblematic of a host of financial institutions that knowingly  
18 originated, sold, and securitized billions of dollars in high risk, poor  
19 quality home loans. These lenders were not the victims of the financial  
20 crisis; the high risk loans they issued became the fuel that ignited the  
21 financial crisis.

22 STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 112TH CONG., WALL  
23 STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE 50  
24 (Subcomm. Print 2011) (“PSI Wall Street Report”).

25 100. Indeed, the Financial Crisis Inquiry Commission (“FCIC”) issued its final  
26 report in January 2011 that detailed, among other things, the collapse of mortgage  
27 underwriting standards and subsequent collapse of the mortgage market and wider  
28 economy. *See* FIN CRISIS INQUIRY COMM’N, FINAL REPORT OF THE NATIONAL

1 COMMISSION ON THE CAUSES OF THE FINANCIAL AND ECONOMIC CRISIS IN THE  
2 UNITED STATES (2011) (“FCIC Report”).

3 101. The FCIC Report concluded that there was a “systemic breakdown in  
4 accountability and ethics” during the housing and financial crisis. “Unfortunately—as  
5 has been the case in past speculative booms and busts—we witnessed an erosion of  
6 standards of responsibility and ethics that exacerbated the financial crisis.” *Id.* at xxii.  
7 The FCIC found that the current economic crisis had its genesis in the housing boom:

8 [I]t was the collapse of the housing bubble—fueled by low interest rates,  
9 easy and available credit, scant regulation, and toxic mortgages—that was  
10 the spark that ignited a string of events, which led to a full-blown crises  
11 in the fall of 2008. Trillions of dollars in risky mortgages had become  
12 embedded throughout the financial system, as mortgage-related securities  
13 were packaged, repackaged, and sold to investors around the world.

14 *Id.* at xvi.

15 102. During the housing boom, mortgage lenders focused on quantity rather  
16 than quality, originating loans for borrowers who had no realistic capacity to repay the  
17 loan. The FCIC Report found “that the percentage of borrowers who defaulted on  
18 their mortgages within just a matter of months after taking a loan nearly doubled from  
19 the summer of 2006 to late 2007.” *Id.* at xxii. Early Payment Default is a significant  
20 indicator of pervasive disregard for underwriting standards. The FCIC Report noted  
21 that mortgage fraud “flourished in an environment of collapsing lending  
22 standards. . . .” *Id.*

23 103. In this lax lending environment, mortgage lenders went unchecked,  
24 originating mortgages for borrowers in spite of underwriting standards:

25 Lenders made loans that they knew borrowers could not afford and that  
26 could cause massive losses to investors in mortgage securities. As early  
27 as September 2004, Countrywide executives recognized that many of the  
28 loans they were originating could result in “catastrophic consequences.”

1 Less than a year later, they noted that certain high-risk loans they were  
2 making could result not only in foreclosures but also in “financial and  
3 reputational catastrophe” for the firm. But they did not stop.

4 *Id.*

5 104. Lenders and borrowers took advantage of this climate, with borrowers  
6 willing to take on loans and lenders anxious to get those borrowers into the loans,  
7 ignoring even loosened underwriting standards. The FCIC Report observed: “Many  
8 mortgage lenders set the bar so low that lenders simply took eager borrowers’  
9 qualifications on faith, often with a willful disregard for a borrower’s ability to pay.”

10 *Id.* at xxiii.

11 105. In an interview with the FCIC, Alphonso Jackson, the Secretary of the  
12 Department of Housing and Urban Affairs (“HUD”) from 2004 to 2008, related that  
13 HUD had heard about mortgage lenders “running wild, taking applications over the  
14 Internet, not verifying people’s income or their ability to have a job.” *Id.* at 12-13  
15 (internal quotation marks omitted).

16 106. Chairman of the Federal Reserve Board, Benjamin Bernanke, spoke to  
17 the decline of underwriting standards in this speech before the World Affairs Council  
18 of Greater Richmond on April 10, 2008:

19 First, at the point of origination, underwriting standards became  
20 increasingly compromised. The best-known and most serious case is that  
21 of subprime mortgages, mortgages extended to borrowers with weaker  
22 credit histories. To a degree that increased over time, these mortgages  
23 were often poorly documented and extended with insufficient attention  
24 to the borrower’s ability to repay. In retrospect, the breakdown in  
25 underwriting can be linked to the incentives that the originate-to-  
26 distribute model, as implemented in this case, created for the originators.  
27 Notably, the incentive structures sometimes often tied originator revenue  
28 to loan volume, rather than to the quality of the loans being passed up



1 the chain. Investors normally have the right to put loans that default  
2 quickly back to the originator, which should tend to apply some  
3 discipline to the underwriting process. However, in the recent episode,  
4 some originators had little capital at stake, reducing their exposure to the  
5 risk that the loans would perform poorly.

6 Benjamin Bernanke, Chairman, Federal Reserve Board, Speech to the World Affairs  
7 Council of Greater Richmond, *Addressing Weaknesses in the Global Financial Markets: The*  
8 *Report of the President's Working Group on Financial Markets*, Apr. 10, 2008.

9 107. Investment banks securitized loans that were not originated in  
10 accordance with underwriting guidelines, and failed to disclose this fact in RMBS  
11 offering documents. As the FCIC Report noted:

12 The Commission concludes that firms securitizing mortgages failed to  
13 perform adequate due diligence on the mortgages they purchased and at  
14 times knowingly waived compliance with underwriting standards.  
15 Potential investors were not fully informed or were misled about the  
16 poor quality of the mortgages contained in some mortgage-related  
17 securities. These problems appear to have been significant.

18 FCIC Report at 187.

19 108. The lack of disclosure regarding the true underwriting practices of the  
20 Originators in the Offering Documents at issue in this Complaint put WesCorp at a  
21 severe disadvantage. The FSOC explained that the origination and securitization  
22 process contains inherent “information asymmetries” that put investors at a  
23 disadvantage regarding critical information concerning the quality and performance of  
24 RMBS. The FSOC Risk Retention Report described the information disadvantage for  
25 investors of RMBS:

26 One important informational friction highlighted during the recent  
27 financial crisis has aspects of a “lemons” problem that exists between the  
28 issuer and investor. An originator has more information about the ability

1 of a borrower to repay than an investor, because the originator is the  
2 party making the loan. Because the investor is several steps removed  
3 from the borrower, the investor may receive less robust loan  
4 performance information. Additionally, the large number of assets and  
5 the disclosures provided to investors may not include sufficient  
6 information on the quality of the underlying financial assets for investors  
7 to undertake full due diligence on each asset that backs the security.

8 FSOC Risk Retention Report at 9 (footnote omitted).

9 109. Because investors had limited or no access to information concerning the  
10 actual quality of loans underlying the RMBS, the “originate-to-distribute” model  
11 created a situation where the origination of low quality mortgages through poor  
12 underwriting thrived. The FSOC found:

13 In the originate-to-distribute model, originators receive significant  
14 compensation upfront without retaining a material ongoing economic  
15 interest in the performance of the loan. This reduces the economic  
16 incentive of originators and securitizers to evaluate the credit quality of  
17 the underlying loans carefully. Some research indicates that securitization  
18 was associated with lower quality loans in the financial crisis. For  
19 instance, one study found that subprime borrowers with credit scores just  
20 above a threshold commonly used by securitizers to determine which  
21 loans to purchase defaulted at significantly higher rates than those with  
22 credit scores below the threshold. By lower underwriting standards,  
23 securitization may have increased the amount of credit extended,  
24 resulting in riskier and unsustainable loans that otherwise may not have  
25 been originated.

26 *Id.* at 11 (footnote omitted).

27 110. The FSOC reported that, as the “originate-to-distribute” model became  
28 more pervasive in the mortgage industry, underwriting practices weakened across the

1 industry. The FSOC Risk Retention Report found “[t]his deterioration was  
2 particularly prevalent with respect to the verification of the borrower’s income, assets,  
3 and employment for residential real estate loans. . . .” *Id.*

4 111. In sum, the disregard of underwriting standards was pervasive across  
5 originators. The failure to adhere to underwriting standards directly contributed to the  
6 sharp decline in the quality of mortgages that became part of mortgage pools  
7 collateralizing RMBS. The lack of adherence to underwriting standards for the loans  
8 underlying RMBS was not disclosed to investors in the offering materials. The nature  
9 of the securitization process, with the investor several steps removed from the  
10 origination of the mortgages underlying the RMBS, made it difficult for investors to  
11 ascertain how the RMBS would perform.

12 112. As discussed below, facts have recently come to light that show many of  
13 the Originators that contributed to the loan pools underlying the RMBS at issue in this  
14 Complaint engaged in these underwriting practices.

## 15 **2. American Home’s Systematic Disregard of Underwriting** 16 **Standards**

17 113. American Home Mortgage Investment Corp. was a real estate investment  
18 trust that invested in RMBS consisting of loans originated and serviced by its  
19 subsidiaries. It was the parent of American Home Mortgage Holdings, Inc., which in  
20 turn was the parent of American Home Mortgage Corp., a retail lender of mortgage  
21 loans. Collectively, these entities are referred to herein as “American Home.”

22 114. American Home originated or contributed a material portion of the loans  
23 in the mortgage pools underlying the AHMA 2007-3, HVMLT 2007-5, HVMLT 2007-  
24 2, and HVMLT 2006-14 offerings. *See infra* Table 10.

25 115. Edmund Andrews, an economics reporter for the New York Times,  
26 recounted his own experience using American Home as a lender. According to  
27 Andrews, he was looking to purchase a home in 2004, and his real estate agent referred  
28 him to a loan officer at American Home. The American Home loan officer began the

1 ordeal by asking Andrews how large of a loan he needed. Andrews, who had a  
2 monthly take home pay of \$2,777, advised the loan officer that he had hefty child  
3 support and alimony payments to an ex-wife. Andrews would be relying on his then-  
4 unemployed fiancée to earn enough money to meet his monthly obligations—  
5 including the mortgage. Andrews reported:

6 As I quickly found out, American Home Mortgage had become one of  
7 the fastest-growing mortgage lenders in the country. One of its  
8 specialties was serving people just like me: borrowers with good credit  
9 scores who wanted to stretch their finances far beyond what our incomes  
10 could justify. In industry jargon, we were “Alt-A” customers, and we  
11 usually paid slightly higher rates for the privilege of concealing our  
12 financial weaknesses.

13  
14 I thought I knew a lot about go-go mortgages. I had already written  
15 several articles about the explosive growth of liar’s loans, no-money-  
16 down loans, interest-only loans and other even more exotic mortgages. I  
17 had interviewed people with very modest incomes who had taken out big  
18 loans. Yet for all that, I was stunned at how much money people were  
19 willing to throw at me.

20  
21 [The American Home loan officer] called back the next morning. “Your  
22 credit scores are almost perfect,” he said happily. “Based on your  
23 income, you can qualify for a mortgage of about \$500,000.”

24  
25 What about my alimony and child-support obligations? No need to  
26 mention them. What would happen when they saw the automatic  
27 withholdings in my paycheck? No need to show them. If I wanted to  
28

1 buy a house, [the American Home loan officer] figured, it was my job to  
2 decide whether I could afford it. His job was to make it happen.

3  
4 “I am here to enable dreams,” he explained to me long afterward. [The  
5 American Home loan officer]’s view was that if I’d been unemployed for  
6 seven years and didn’t have a dime to my name but I wanted a house, he  
7 wouldn’t question my prudence. “Who am I to tell you that you  
8 shouldn’t do what you want to do? I am here to sell money and to help  
9 you do what you want to do. At the end of the day, it’s your signature on  
10 the mortgage—not mine.”

11 Edmund L. Andrews, *My Personal Credit Crisis*, N.Y. TIMES, May 17, 2009, at MM46.

12 116. The American Home loan officer steered Andrews to a stated-income  
13 loan so that he would not have to produce paychecks or tax returns that would reveal  
14 his alimony and child support obligations. The loan officer wanted to limit disclosure  
15 of Andrews’s alimony and child support payments when an existing mortgage showed  
16 up under Andrews’s name. Although his ex-wife was solely responsible for that  
17 mortgage under the terms of the couple’s separation agreement, the only way Andrews  
18 could explain that fact would be to produce the agreement, which would also reveal  
19 his alimony and child support obligations. According to Andrews:

20 [The American Home loan officer] didn’t get flustered. If Plan A didn’t  
21 work, he would simply move down another step on the ladder of  
22 credibility. Instead of “stating” my income without documenting it, I  
23 would take out a “no ratio” mortgage and not state my income at all. For  
24 the price of a slightly higher interest rate, American Home would verify  
25 my assets, but that was it. Because I wasn’t stating my income, I couldn’t  
26 have a debt-to-income ratio, and therefore, I couldn’t have too much  
27 debt. I could have had four other mortgages, and it wouldn’t have  
28

1           mattered. American Home was practically begging me to take the  
2           money.

3       *Id.*

4           117. American Home ultimately approved Andrews's application. Not  
5           surprisingly, Andrews was unable to afford his monthly mortgage payments.

6           118. American Home's lack of adherence to underwriting guidelines was set  
7           forth in detail in a 165-page amended class action complaint filed June 4, 2008, in *In re*  
8           *American Home Mortgage Sec Litig*, No. 07-md-1898 (TCP) (E.D.N.Y.). Investors in  
9           American Home common/preferred stock alleged that the company misrepresented  
10          itself as a conservative lender, when, based on statements from more than 33  
11          confidential witnesses and internal company documents, American Home in reality  
12          was a high risk lender, promoting quantity of loans over quality by targeting borrowers  
13          with poor credit, violating company underwriting guidelines, and providing incentives  
14          for employees to sell risky loans, regardless of the borrowers' creditworthiness. *See*  
15          Am. Class Action Compl., *In re American Home Mortgage Sec. Litig.*, No. 07-md-1898  
16          (E.D.N.Y. filed June 4, 2008) ("American Home ACC").

17          119. According to the American Home ACC, former American Home  
18          employees recounted that underwriters were consistently bullied by sales staff when  
19          underwriters challenged questionable loans, while exceptions to American Home's  
20          underwriting guidelines were routinely applied. *See id.* at 43.

21          120. The American Home ACC cited to witnesses who were former American  
22          Home employees. These witnesses reported that American Home management told  
23          underwriters not to decline a loan, regardless of whether the loan application included  
24          fraud. *See id.*

25          121. Another former American Home employee stated that American Home  
26          routinely made exceptions to its underwriting guidelines to be able to close loans.  
27          When American Home mortgage underwriters raised concerns to the sales department  
28          about the pervasive use of exceptions to American Home's mortgage underwriting



1 practices, the sales department contacted American Home headquarters to get  
2 approval for the use of exceptions. Indeed, it was commonplace to overrule mortgage  
3 underwriters' objections to approving a loan to facilitate loan approval. *See id.* at 44.

4 122. A former American Home auditor confirmed this account that American  
5 Home mortgage underwriters were regularly overruled when they objected to loan  
6 originations. *See id.*

7 123. The parties settled the litigation on January 14, 2010, for \$37.25 million.

8 124. American Home's lax lending practices landed it in the 2008 "Worst Ten  
9 in the Worst Ten" Report. American Home came in 8th in Las Vegas, Nevada, and  
10 9th in both Detroit, Michigan, and Miami, Florida. *See* 2008 "Worst Ten in the Worst  
11 Ten" Report. When the OCC issued the 2009 "Worst Ten in the Worst Ten" Report,  
12 American Home again featured prominently, appearing in the top ten in six of the ten  
13 worst metropolitan areas (4th in both Fort Pierce-Port St. Lucie, Florida, and Fort  
14 Myers-Cape Coral, Florida; 7th in Vallejo-Fairfield-Napa, California; 8th in Las Vegas,  
15 Nevada; 9th in Stockton-Lodi, California; and 10th in Bakersfield, California). *See*  
16 2009 "Worst Ten in the Worst Ten" Report.

### 17 **3. BankUnited's Systematic Disregard of Underwriting** 18 **Standards**

19 125. BankUnited FSB was a federal savings bank headquartered in Coral  
20 Gables, Florida. BankUnited FSB became BankUnited in 2009 after being seized by  
21 the FDIC and sold to a group of investors.

22 126. BankUnited originated or contributed a material number of the loans in  
23 the mortgage pools underlying the HVMLT 2006-10 and HVMLT 2006-8 offerings.  
24 *See infra* Table 10.

25 127. BankUnited actively participated in the nonprime and option ARM  
26 mortgage lending boom from 2005 to 2007. In its 10-Q quarterly report filed with the  
27 SEC on August 25, 2008, BankUnited acknowledged that it had been  
28



1        advised by the [Office of Thrift Supervision (“OTS”)] of certain concerns  
2        that BankUnited has agreed to address. Several of the measures  
3        addressing these concerns were already in progress at the time the  
4        Company and the Bank entered into agreements with the OTS to address  
5        the concerns. At this time, some of the measures have been completed  
6        and others are in progress. These measures include efforts to seek to raise  
7        at least \$400 million of capital and to submit an alternative capital plan to  
8        be applicable if the Company is unable to raise the \$400 million;  
9        termination of the option ARM loan program (other than in the wealth  
10       management area and, in certain limited circumstances, for loan  
11       modifications); termination of reduced and no documentation loan  
12       programs; reduction of the portfolio of negative amortization loans; and  
13       enhanced monitoring and internal reporting, as well as reporting to  
14       regulators on option ARM loan reduction efforts, preservation and  
15       enhancement of capital, mortgage insurance and liquidity strength. The  
16       Bank also agreed to enhance its policies and procedures regarding the  
17       Bank’s allowance for loan losses, including increasing the allowance to a  
18       level which has already been attained. The Bank has also agreed to  
19       maintain capital ratios substantially in excess of the minimum required  
20       ratios to be deemed well-capitalized upon raising the agreed upon  
21       amount of capital.

22       BankUnited Form 10-Q Quarterly Report for the SEC, Aug. 25, 2008, at 22.

23       128.    On September 19, 2008, OTS, the agency that regulates banks focusing  
24       on mortgage lending, issued a cease and desist order to BankUnited that prohibited  
25       BankUnited from issuing new loans under its reduced documentation and pay-option  
26       ARM programs. OTS also required BankUnited to enhance its monitoring and  
27       internal reporting.

28       129.    An April 16, 2009 article in the South Florida Business Journal reported:

1 [Payment option adjustable-rate mortgages], which are the main source of  
2 BankUnited's problems, allow borrowers to pay less than the monthly  
3 interest accruing on their mortgages so that the balance grows. At a time  
4 when home values have declined, that can leave borrowers with high  
5 payments on a home that's worth less than they owe on their mortgage.

6  
7 BankUnited's \$5.89 billion in option ARMs accounted for 51 percent of  
8 its loan portfolio on Dec. 31.

9  
10 "I wouldn't be surprised to see the institution shut down tomorrow, but I  
11 have said that so many times about BankUnited coming into a Friday –  
12 that it's no sure thing," [said a senior banking analyst].

13 Brian Bandell, *BankUnited Given 20 Days to Strike Deal*, S. Fla. Bus. J., Apr. 16, 2009,  
14 *available at* [www.bizjournals.com/southflorida/stories/2009/04/13/daily53.html](http://www.bizjournals.com/southflorida/stories/2009/04/13/daily53.html).

15 130. The FDIC reprimanded BankUnited in a November 2009 letter,  
16 according to this Dec. 11, 2009 article in the Palm Beach Post:

17 In a scathing letter, the Federal Deposit Insurance Corp. accuses former  
18 Chairman Alfred Camner, former Chief Executive Ramiro Ortiz and 13  
19 others of "negligence, gross negligence and/or breach of fiduciary duties  
20 related to certain residential loans."

21  
22 The FDIC letter focuses on BankUnited's fatal attraction to Option  
23 ARMs, the risky mortgages that gave boom-time borrowers three choices  
24 each month: Make a full payment of principal and interest, make a  
25 minimum payment that results in the loan balance growing, or pay some  
26 amount in between. As South Florida home prices plummeted and  
27 jobless rates soared, Option ARMs have gone bad in droves.

28

1 In a Nov. 5 letter that's now part of the BankUnited bankruptcy court  
2 file, the FDIC lambastes the bankers for their "loose lending policies"  
3 and demands civil damages. Among other things, the FDIC accuses the  
4 bankers of:

- 5 • "Encouraging an extremely liberal and aggressive lending mentality to  
6 'make the loan as long as the borrower has a pulse.'
- 7 • "Engaging in reckless, high-risk, and limited-scrutiny lending to fuel the  
8 bank's aggressive and rapid growth — in direct contradiction to public  
9 representations of the bank's conservative lending and strict underwriting  
10 policies.
- 11 • "Approving and putting in place a compensation structure that drove the  
12 bank's directors and officers to pursue recklessly risky lending and  
13 business practices."

14 The FDIC says those practices caused \$227 million in loan losses in  
15 addition to the \$4 billion hit the FDIC took.

16 Jeff Ostrowski, *FDIC Moves Against BankUnited Execs*, The Palm Beach Post,  
17 Dec. 11, 2009, *available at* [http://www.palmbeachpost.com/news/business/fdic-](http://www.palmbeachpost.com/news/business/fdic-moves-against-bankunited-execs/nLn6H/)  
18 [moves-against-bankunited-execs/nLn6H/](http://www.palmbeachpost.com/news/business/fdic-moves-against-bankunited-execs/nLn6H/).

19 131. After OTS placed BankUnited into receivership, the Office of the  
20 Inspector General ("OIG") of the Department of Treasury released a Material Loss  
21 Review of BankUnited in June 2010. The Material Loss Review concluded:

22 The primary cause of BankUnited's failure was a high-risk growth  
23 strategy with excessive concentration in option adjustable-rate mortgages  
24 (option ARM) without implementing adequate controls to manage the  
25 associated risks. Option ARMs are high-risk loans that feature, among  
26 other things, the possibility of negative amortization and payment shock  
27 as rates reset. Deficient underwriting and credit administration, combined  
28 with the rapid decline in the real estate market, resulted in the

deterioration of the thrift's asset quality, including a substantial volume of problem loans and significant loan losses.

OIG, Audit Report: Safety and Soundness, Material Loss Review of BankUnited, FSB (OIG-10-042), at 2 (June 22, 2010), *available at* [http://www.treasury.gov/about/organizational-structure/ig/Documents/OIG10042%20\(BankUnited%20MLR\).pdf](http://www.treasury.gov/about/organizational-structure/ig/Documents/OIG10042%20(BankUnited%20MLR).pdf).

132. The BankUnited Material Loss Review found that BankUnited did not have any instructions on how to determine whether a stated income was reasonable:

Additionally, until October 2007 BankUnited did not have any formal guidelines to document its reasonableness tests of borrowers' reported income for stated income loans. This was a significant deficiency in that more than 65 percent of BankUnited's option ARMs were made based on (1) stated income or (2) stated income and stated assets. Therefore, approximately 75 percent of BankUnited's option ARMs originated between 2006 and 2007 were not prudently underwritten in a safe and sound manner based on existing OTS guidance.

*Id.* at 16.

133. The Material Loss Review further found that:

BankUnited marketed its option ARM loan products through a network of third-party mortgage brokers (more than 4,000 in 2006, when the thrift's production of these loans was at its peak). According to OTS examination documentation, BankUnited evaluated the brokers' performance primarily in terms of productivity or volume. Other criteria, such as credit quality and adherence to loan policy with respect to the loans they placed, were secondary. BankUnited also granted mortgage brokers wide discretion in setting the margins for the option ARMs. Loans with higher margins resulted in greater broker compensation. The brokers therefore had a financial incentive to place borrowers in large

1 loans with high margins, with only secondary regard if any for credit  
2 quality. These factors, coupled with the already reduced underwriting  
3 standards, led to the very poor asset quality of the option ARMs.

4 *Id.* at 9-10 (footnote omitted).

5 134. A confidential witness in Amended Complaint, *In re BankUnited Sec. Litig.*,  
6 No. 08-22572 (S.D. Fla. filed June 30, 2009) described BankUnited systematic  
7 disregard of its underwriting guidelines. According to that confidential witness, who  
8 worked at BankUnited as an in-house appraiser from August 2005 through December  
9 2007, there was “extreme pressure to hit numbers” and “pressure to pass on deals  
10 without diligent review” from the loan production staff. The confidential witness  
11 stated that BankUnited’s CEO was personally involved in loosening the appraisal  
12 review process, stating that when reviewing inappropriate appraisals, “cut them, but  
13 not too many.” This employee documented approximately 500 incidents of overstated  
14 property values. *Id.* ¶¶ 28-32.

15 **4. Countrywide’s Systematic Disregard of Underwriting**  
16 **Standards**

17 135. Countrywide was among the largest originators of residential mortgages  
18 in the United States during the period at issue in this Complaint. Countrywide  
19 originated or contributed a material portion of the loans in the mortgage pools  
20 underlying the HVMLT 2007-1, HVMLT 2006-12, HVMLT 2006-11, and HVMLT  
21 2006-9 offerings. *See infra* Table 10.

22 136. In October 2009, the House Committee on Oversight and Government  
23 Reform launched an investigation into the entire subprime mortgage industry,  
24 including Countrywide, focusing on “whether mortgage companies employed  
25 deceptive and predatory lending practices, or improper tactics to thwart regulation, and  
26 the impact of those activities on the current crisis.” Press Release, Comm. on  
27 Oversight & Government Reform, Statement of Chairman Towns on Committee  
28

1 Investigation Into Mortgage Crisis at 1 (Oct. 23, 2009) (internal quotation marks  
2 omitted).

3 137. On May 9, 2008, the New York Times noted that minimal  
4 documentation and stated income loans—Countrywide’s No Income/No Assets  
5 Program and Stated Income/Stated Assets Program—have “bec[o]me known [within  
6 the mortgage industry] as ‘liars’ loans’ because many [of the] borrowers falsified their  
7 income.” Floyd Norris, *A Little Pity, Please, for Lenders*, N.Y. TIMES, May 9, 2008, at C1.

8 138. In a television special titled, “If You Had a Pulse, We Gave You a Loan,”  
9 Dateline NBC reported on March 27, 2009:

10 To highlight just how simple it could be to borrow money, Countrywide  
11 marketed one of its stated-income products as the “Fast and Easy loan.”

12  
13 As manager of Countrywide’s office in Alaska, Kourosh Partow pushed  
14 Fast and Easy loans and became one of the company’s top producers.

15  
16 He said the loans were “an invitation to lie” because there was so little  
17 scrutiny of lenders. “We told them the income that you are giving us will  
18 not be verified. The asset that you are stating will not be verified.”

19  
20 He said they joked about it: “If you had a pulse, we gave you a loan. If  
21 you fog the mirror, give you a loan.”

22  
23 But it turned out to be no laughing matter for Partow. Countrywide fired  
24 him for processing so-called “liar loans” and federal prosecutors charged  
25 him with crimes. On April 20, 2007, he pleaded guilty to two counts of  
26 wire fraud involving loans to a real estate speculator; he spent 18 months  
27 in prison.  
28

1 In an interview shortly after he completed his sentence, Partow said that  
2 the practice of pushing through loans with false information was  
3 common and was known by top company officials. “It’s impossible they  
4 didn’t know.”

5 . . .

6 During the criminal proceedings in federal court, Countrywide executives  
7 portrayed Partow as a rogue who violated company standards.

8  
9 But former senior account executive Bob Feinberg, who was with the  
10 company for 12 years, said the problem was not isolated. “I don’t buy  
11 the rogue. I think it was infested.”

12  
13 He lamented the decline of what he saw as a great place to work,  
14 suggesting a push to be number one in the business led Countrywide  
15 astray. He blamed Angelo Mozilo, a man he long admired, for taking the  
16 company down the wrong path. It was not just the matter of stated  
17 income loans, said Feinberg. Countrywide also became a purveyor of  
18 loans that many consumer experts contend were a bad deal for  
19 borrowers, with low introductory interest rates that later could skyrocket.

20  
21 In many instances, Feinberg said, that meant borrowers were getting  
22 loans that were “guaranteed to fail.”

23 139. On June 4, 2009, the SEC sued Angelo Mozilo and other Countrywide  
24 executives, alleging securities fraud. Specifically, the SEC alleged that Mozilo and the  
25 others misled investors about the credit risks that Countrywide created with its  
26 mortgage origination business, telling investors that Countrywide was primarily  
27 involved in prime mortgage lending, when it was actually heavily involved in risky sub-  
28 prime loans with expanded underwriting guidelines. *See* Compl. for Violations of the



1 Federal Securities Laws, *SEC v. Mozilo*, No. CV 09-3994-JFW (C.D. Cal. filed June 4,  
2 2009). Mozilo and the other executives settled the charges with the SEC for \$73  
3 million on October 15, 2010. *See* Walter Hamilton & E. Scott Reckard, *Angelo Mozilo,*  
4 *Other Former Countrywide Execs Settle Fraud Charges*, L.A. TIMES, Oct. 16, 2010, at A1.

5 140. Internal Countrywide e-mails the SEC released in connection with its  
6 lawsuit show the extent to which Countrywide systematically deviated from its  
7 underwriting guidelines. For instance, in an April 13, 2006 e-mail from Mozilo to  
8 other top Countrywide executives, Mozilo stated that Countrywide was originating  
9 home mortgage loans with “serious disregard for process, compliance with guidelines  
10 and irresponsible behavior relative to meeting timelines.” E-mail from Angelo Mozilo  
11 to Eric Sieracki and other Countrywide Executives (Apr. 13, 2006 7:42 PM PDT).  
12 Mozilo also wrote that he had “personally observed a serious lack of compliance  
13 within our origination system as it relates to documentation and generally a  
14 deterioration in the quality of loans originated versus the pricing of those loan[s].” *Id.*  
15 (internal quotation marks omitted).

16 141. Indeed, in September 2004, Mozilo had voiced his concern over the  
17 “clear deterioration in the credit quality of loans being originated,” observing that “the  
18 trend is getting worse” because of competition in the non-conforming loans market.  
19 With this in mind, Mozilo argued that Countrywide should “seriously consider  
20 securitizing and selling ([Net Interest Margin Securities]) a substantial portion of  
21 [Countrywide’s] current and future sub prime [sic] residuals.” E-mail from Angelo  
22 Mozilo to Stan Kurland & Keith McLaughlin, Managing Directors, Countrywide (Sept.  
23 1, 2004 8:17 PM PDT).

24 142. To protect themselves against poorly underwritten loans, parties that  
25 purchase loans from an originator frequently require the originator to repurchase any  
26 loans that suffer Early Payment Default.

27 143. In the first quarter of 2006, HSBC Holdings plc (“HSBC”), a purchaser  
28 of Countrywide’s 80/20 subprime loans, began to force Countrywide to repurchase



1 certain loans that HSBC contended were defective under the parties' contract. In an e-  
2 mail sent on April 17, 2006, Mozilo asked, "[w]here were the breakdowns in our  
3 system that caused the HSBC debacle including the creation of the contract all the way  
4 through the massive disregard for guidelines set forth by both the contract and  
5 corporate." E-mail from Angelo Mozilo to Dave Sambol, former Executive Managing  
6 Director and Chief of Mortgage Banking and Capital Markets, Countrywide Financial  
7 (Apr. 17, 2006 5:55 PM PST). Mozilo continued:

8 In all my years in the business I have never seen a more toxic product. [sic]  
9 It's not only subordinated to the first, but the first is subprime. In  
10 addition, the [FICO's] are below 600, below 500 and some below 400. . . .  
11 With real estate values coming down . . . the product will become  
12 increasingly worse. There has [sic] to be major changes in this program,  
13 including substantial increases in the minimum [FICO].

14 *Id.*

15 144. Countrywide sold a product called the "Pay Option ARM." This loan  
16 was a 30-year adjustable rate mortgage that allowed the borrower to choose between  
17 various monthly payment options, including a set minimum payment. In a June 1,  
18 2006 e-mail, Mozilo noted that most of Countrywide's Pay Option ARMs were based  
19 on stated income and admitted that "[t]here is also some evidence that the information  
20 that the borrower is providing us relative to their income does not match up with IRS  
21 records." E-mail from Angelo Mozilo to Carlos Garcia, former CFO of Countrywide  
22 Financial, and Jim Furash, former President of Countrywide Bank (June 1, 2006 10:38  
23 PM PST).

24 145. An internal quality control report e-mailed on June 2, 2006, showed that,  
25 for stated income loans, 50.3% of loans indicated a variance of 10% or more from the  
26 stated income in the loan application. *See* E-mail from Clifford Rossi, Chief Risk  
27 Officer, Countrywide, to Jim Furash, Executive, CEO, Countrywide Bank, N.A.,  
28 among others (June 2, 2006 12:28 PM PDT).

1           146. Countrywide, apparently, was “flying blind” on how one of its popular  
2 loan products, the Pay Option ARM loan, would perform, and, admittedly, had “no  
3 way, with any reasonable certainty, to assess the real risk of holding these loans on [its]  
4 balance sheet.” E-mail from Angelo Mozilo to Dave Sambol, Managing Director  
5 Countrywide (Sept. 26, 2006 10:15 AM PDT). Yet such loans were securitized and  
6 passed on to unsuspecting investors such as WesCorp.

7           147. With growing concern over the performance of Pay Option ARM loans  
8 in the waning months of 2007, Mozilo advised that he “d[id]n’t want any more Pay  
9 Options originated for the Bank.” E-mail from Angelo Mozilo to Carlos Garcia,  
10 former Managing Director, Countrywide (Nov. 3, 2007 5:33 PM PST). In other  
11 words, if Countrywide was to continue to originate Pay Option ARM loans, it was not  
12 to hold onto the loans. Mozilo’s concerns about Pay Option ARM loans were rooted  
13 in “[Countrywide’s] inability to underwrite [Pay Option ARM loans] combined with  
14 the fact that these loans [we]re inherently unsound unless they are full doc, no more  
15 than 75% LTV and no piggys.” *Id.*

16           148. In a March 27, 2006 e-mail, Mozilo reaffirmed the need to “oversee all of  
17 the corrective processes that will be put into effect to permanently avoid the errors of  
18 both judgement [sic] and protocol that have led to the issues that we face today” and  
19 that “the people responsible for the origination process understand the necessity for  
20 adhering to the guidelines for 100% LTV sub-prime product. This is the most  
21 dangerous product in existence and there can be nothing more toxic and therefore  
22 requires that no deviation from guidelines be permitted irrespective of the  
23 circumstances.” E-mail from Angelo Mozilo to the former Countrywide Managing  
24 Directors (Mar. 27, 2006 8:53 PM PST).

25           149. Yet Countrywide routinely found exceptions to its underwriting  
26 guidelines without sufficient compensating factors. In an April 14, 2005 e-mail, Frank  
27 Aguilera, a Countrywide managing director, explained that the “spirit” of  
28 Countrywide’s exception policy was not being followed. He noted a “significant

1 concentration of similar exceptions” that “denote[d] a divisional or branch exception  
2 policy that is out side [sic] the spirit of the policy.” E-mail from Frank Aguilera,  
3 Managing Director, Countrywide to John McMurray, Managing Director, Countrywide  
4 (Apr. 14, 2005 12:14 PM PDT). Aguilera continued: “The continued concentration in  
5 these same categories indicates either a) inadequate controls in place to mange [sic]  
6 rogue production units or b) general disregard for corporate program policies and  
7 guidelines.” *Id.* Aguilera observed that pervasive use of the exceptions policy was an  
8 industry-wide practice:

9 It appears that [Countrywide Home Loans]’ loan exception policy is more  
10 loosely interpreted at [Specialty Lending Group] than at the other  
11 divisions. I understand that [Correspondent Lending Division] has  
12 decided to proceed with a similar strategy to appease their complaint  
13 customers. . . . [Specialty Lending Group] has clearly made a market in  
14 this unauthorized product by employing a strategy that Blackwell has  
15 suggested is prevalent in the industry. . . .

16 *Id.*

17 150. Internal reports months after an initial push to rein in the excessive use  
18 of exceptions with a “zero tolerance” policy showed the use of exceptions remained  
19 excessive. E-mail from Frank Aguilera, Managing Director, Countrywide, to Brian  
20 Kuelbs, Managing Director, Countrywide, among others (June 12, 2006 10:13 AM  
21 PDT).

22 151. In February 2007, nearly a year after pressing for a reduction in the  
23 overuse of exceptions and as Countrywide claimed to be tightening lending standards,  
24 Countrywide executives found that exceptions continued to be used at an unacceptably  
25 high rate. Frank Aguilera stated that any “[g]uideline tightening should be considered  
26 purely optics with little change in overall execution unless these exceptions can be  
27 contained.” E-mail from Frank Aguilera, Managing Director, Countrywide, to Mark  
28

1 Elbuam, Managing Director, Countrywide, among others (Feb. 21, 2007 4:58 PM  
2 PST).

3 152. John McMurray, a former Countrywide managing director, expressed his  
4 opinion in a September 2007 e-mail that “the exception process has never worked  
5 properly.” E-mail from John McMurray, Managing Director, Countrywide, to Jess  
6 Lederman, Managing Director, Countrywide (Sept. 7, 2007 10:12 AM PDT).

7 153. Countrywide conceded that the poor performance of loans it originated  
8 was, in many cases, due to poor underwriting. In April 2007, Countrywide noticed  
9 that its high CLTV stated income loans were performing worse than those of its  
10 competitors. After reviewing many of the loans that went bad, a Countrywide  
11 executive stated that “in most cases [poor performance was] due to poor underwriting  
12 related to reserves and verification of assets to support reasonable income.” E-mail  
13 from Russ Smith, Countrywide, to Andrew Gissinger, Managing Director,  
14 Countrywide (Apr. 11, 2007 7:58 AM PDT).

15 154. On October 6, 2008, 39 states announced that Countrywide agreed to  
16 pay up to \$8 billion in relief to homeowners nationwide to settle lawsuits and  
17 investigations regarding Countrywide’s deceptive lending practices.

18 155. On July 1, 2008, NBC Nightly News aired the story of a former  
19 Countrywide regional Vice President, Mark Zachary, who sued Countrywide after he  
20 was fired for questioning his supervisors about Countrywide’s poor underwriting  
21 practices.

22 156. According to Zachary, Countrywide pressured employees to approve  
23 unqualified borrowers. Countrywide’s mentality, he said, was “what do we do to get  
24 one more deal done. It doesn’t matter how you get there [*i.e.*, how the employee  
25 closes the deal]. . . .” NBC Nightly News, Countrywide Whistleblower Reports “Liar  
26 Loans” (July 1, 2008) (“July 1, 2008 NBC Nightly News”). Zachary also stated that the  
27 practices were not the work of a few bad apples, but rather: “It comes down, I think  
28 from the very top that you get a loan done at any cost.” *Id.*

1           157. Zachary also told of a pattern of: (1) inflating home appraisals so buyers  
2 could borrow enough to cover closing costs, but leaving the borrower owing more  
3 than the house was truly worth; (2) employees steering borrowers who did not qualify  
4 for a conventional loan into riskier mortgages requiring little or no documentation,  
5 knowing they could not afford it; and (3) employees coaching borrowers to overstate  
6 their income in order to qualify for loans.

7           158. NBC News interviewed six other former Countrywide employees from  
8 different parts of the country, who confirmed Zachary's description of Countrywide's  
9 corrupt culture and practices. Some said that Countrywide employees falsified  
10 documents intended to verify borrowers' debt and income to clear loans. NBC News  
11 quoted a former loan officer: "I've seen supervisors stand over employees' shoulders  
12 and watch them . . . change incomes and things like that to make the loan work." July  
13 1, 2008 NBC Nightly News.

14           159. Not surprisingly, Countrywide's default rates reflected its approach to  
15 underwriting. *See* 2008 "Worst Ten in the Worst Ten" Report. Countrywide appeared  
16 on the top ten list in six of the ten markets: 4th in Las Vegas, Nevada; 8th in  
17 Sacramento, California; 9th in Stockton, California, and Riverside, California; and 10th  
18 in Bakersfield, California, and Miami, Florida. When the OCC issued its updated 2009  
19 "Worst Ten in the Worst Ten" Report, Countrywide appeared on the top ten list in  
20 every market, holding 1st place in Las Vegas, Nevada; 2nd in Reno, Nevada; 3rd in  
21 Merced, California; 6th in Fort Myers-Cape Coral, Florida, Modesto, California, and  
22 Stockton-Lodi, California; 7th in Riverside-San Bernardino, California, and Fort  
23 Pierce-Port St. Lucie, Florida; 8th in Vallejo-Fairfield-Napa, California; and 9th in  
24 Bakersfield, California. *See* 2009 "Worst Ten in the Worst Ten" Report.

1                                   **5. First Franklin's Systematic Disregard of Underwriting**  
2                                   **Standards**

3           160. First Franklin Financial Corporation ("First Franklin") originated or  
4 contributed a material portion of the loans in the mortgage pool underlying the  
5 FFMLT 2005-FFH4 offering. *See infra* Table 10.

6           161. First Franklin faces a class action suit that alleges it systemically  
7 disregarded its underwriting guidelines when originating mortgages that were  
8 subsequently securitized into RMBS. *See* Corrected Am. Compl. For Rescission and  
9 Damages, *Federal Home Loan Bank of Chicago v. Banc of America*, No. 10-ch-45003 (Ill.  
10 Cir. Ct. Apr. 8, 2011) ("FHLB Chicago Am. Compl.").

11           162. Statements from confidential witnesses in the FHLB Chicago Am.  
12 Complaint represented that First Franklin originated mortgage loans in violation of its  
13 stated underwriting standards.

14           163. According to one confidential witness who was an underwriter at a First  
15 Franklin branch in Georgia from March 2004 to November 2007, account executives  
16 at First Franklin were making "\$100,000 a month in commissions," which was based  
17 off of the number and dollar amount of loans processed. Due to this incentive  
18 structure, account executives would often pressure underwriters to approve loans that  
19 should not have been approved. The executives would simply override the  
20 underwriter's decision so that, according to this confidential witness, "Nine out of ten  
21 times, the loan went through." *Id.* ¶¶ 387-88.

22           164. That same confidential witness explained that First Franklin used  
23 contract appraisers who inflated property values. "The[r]e were homes with busted  
24 out windows and the meter boxes [] missing" that appraised for \$300,000. He also  
25 knew that many fake W-2s had been attached to loan applications because the tax  
26 withholdings did not match the income. Further, he knew that mortgage brokers who  
27 referred loan applications to First Franklin were "whiting out or faxing over" the  
28



1 actual numbers and writing in new numbers so that the loans would work. *Id.* ¶¶ 400,  
2 402.

3 165. Another confidential witness was an underwriter and account executive  
4 at a First Franklin branch in Ohio from 2000 until 2007. Account executives were  
5 responsible for maintaining relationships with mortgage brokers that referred loan  
6 applications to the originating banks. This confidential witness stated that “account  
7 executives paid processors cash under the table to help them get loans closed,” and  
8 went on to describe how one loan processor was caught manipulating the loan  
9 documents in order to close more loans. *Id.* ¶ 389.

10 166. One confidential witness, who was an underwriter at a First Franklin  
11 branch in Washington from 2005 until November 2007, described how the systematic  
12 disregard for underwriting standards grew worse after First Franklin purchased OwnIt  
13 Mortgage and OwnIt employees began working with the confidential witness. She  
14 stated that OwnIt employees “were used to approving anything. They’d say, ‘If we  
15 don’t’ approve it, somebody else will. So why lose the money?’” This witness’s  
16 manager was a former OwnIt employee who would often override her employees’  
17 decisions to decline loans in order to meet performance goals. The witness also noted  
18 that First Franklin employees manipulated applications so that they would be  
19 approved. *Id.* ¶¶ 390, 406.

20 167. The confidential witness who worked at the Ohio branch represented  
21 that there was enormous pressure from management to close loans at any cost.  
22 “[P]eople were working until 8 p.m. on Saturdays and Sundays” in order to close the  
23 loans, stated the witness. As a result, “a lot of loans slipped through. People were  
24 tired of being beat up. With the rush of loans, stuff could have been overlooked.  
25 Maybe the conditions didn’t exactly meet the guidelines.” During the last few days of  
26 the month, a drove of employees would go to the branch manager “begging for  
27 exceptions to close their loans.” The witness recalls one instance where the branch  
28

1 manager came out of his office and yelled: “Oh f\*\*\* it! Just close the f\*\*\*ing loans.”  
2 *Id.* ¶ 395.

3 168. Another confidential witness, who was, among other things, an account  
4 executive and underwriter at a First Franklin branch in Utah from 1996 until 2008,  
5 noted that account executives would often approach branch managers about  
6 overturning an underwriter’s decision to reject a loan, and said that “some loans were  
7 approved that were not compliant with guidelines.” *Id.* ¶ 396.

8 169. That same confidential witness also encountered the “blatant fraud” first  
9 hand. She recalled a \$500,000 loan application for a home that was supposed to be  
10 owner occupied even though the same borrower had purchased a \$1,000,000 home in  
11 the same neighborhood a month earlier and also claimed that it would be owner  
12 occupied. Although the underwriter was successful in blocking that particular  
13 application, her manager was mad at her for catching it. Other similar loans were  
14 approved. *See id.* ¶ 404.

15 170. When First Franklin began downsizing its mortgage operation in late  
16 2007, it ordered all of its remaining underwriters to assist in loss mitigation. The  
17 confidential witness from the Utah branch was one of them. She reported that the  
18 loss mitigation group was tasked with reviewing the quality of a number of First  
19 Franklin’s loans: she reported that among the loans she reviewed, fifty percent were  
20 not compliant with First Franklin’s guidelines, citing problems such as inflated  
21 appraisal values, insufficient employment verification, and disqualifying credit scores.  
22 *See id.* ¶ 398.

23 171. According to another confidential witness, who was an underwriter at a  
24 First Franklin branch in Florida from 1999 until 2007, loan document manipulation at  
25 First Franklin grew to disconcerting levels. The witness stated that “a lot of fraudulent  
26 loans were going through. There was tons of fraud going on.” *Id.* ¶ 401.

27 172. FHLB’s complaint survived the defendants’ motion to dismiss, with the  
28 court stating “the Bank has provided evidentiary facts, such as testimony, AVM



1 analysis of appraisal values, delinquency and foreclosure rates, and pleadings from  
2 other civil actions involving the defendants, which demonstrate the strength of the  
3 Bank's case" that the originators systematically disregarded their underwriting  
4 standards. Order, FHLB, No. 10-45033 (Ill. Cir. Ct. Sept. 19, 2012) ("FHLB Ill.  
5 Order").

6 173. Statements from confidential witnesses in a lawsuit brought by American  
7 International Group ("AIG") against Bank of America provide further evidence of  
8 First Franklin's systematic disregard of its underwriting guidelines. *See* Compl., *Am.*  
9 *Int'l Grp. v. Bank of Am. Corp.*, No. 652199/2011 (N.Y. Sup. Ct., N.Y. Cnty. filed Aug.  
10 8, 2011), *removed to* No. 11-cv-10549 (C.D. Cal.).

11 174. In that suit, a former First Franklin underwriter from 2005 to 2007, said  
12 First Franklin's lending practices were "basically criminal." Underwriters were  
13 required to depart from underwriting guidelines in ways "that we did not agree with,  
14 but had to do" in order to keep their jobs. That former employee also divulged that  
15 managers would call appraisers directly "if they didn't get exactly what they wanted"  
16 and would request re-appraisal until a satisfactory number was returned. When she  
17 and another employee "spoke out" about these practices, they were fired. *Id.* ¶ 301.

18 175. Another former senior underwriter at First Franklin until 2005, said her  
19 manager would override her decisions not to fund problematic loans, believing that the  
20 defects would not be discovered since First Franklin only audited 5% of its loans. She  
21 recalled several instances when she rejected unreasonable stated income loans only to  
22 be overturned by her managers. One such instance involved a cocktail waitress who  
23 claimed to make \$5,000 per month while working at the equivalent of an IHOP. *See id.*  
24 ¶ 302.

25 176. That same senior underwriter revealed that her manager would routinely  
26 "sign off" on appraisals that used "crazy" comparable properties that were over a mile  
27 away. The manager would also pick appraisers who he knew would give favorable  
28 appraisals: "He would pick the appraiser who would do what he wanted . . . he'd say,

1 ‘don’t use that guy, use this guy.’” The manager even instructed the senior underwriter  
2 to change appraisals and to omit key details about properties. *Id.* ¶ 303.

3 177. That same senior underwriter further explained how First Franklin’s  
4 bonus structure motivated the behavior she witnessed. She received a \$50 bonus for  
5 every approved loan, ultimately bringing in \$150,000 a year even though her base  
6 salary was \$55,000. *See id.*

7 178. Another First Franklin underwriter corroborated the problems caused by  
8 First Franklin’s bonus structure. She claimed some of her fellow underwriters “would  
9 approve anything” in order to be paid more. She explained that the bonus structure  
10 was not based on loans reviewed but only on loans approved. Even if an underwriter  
11 resisted the temptation to approve a faulty loan, his or her manager would redirect the  
12 loan application to someone else who would “sign behind your back.” *Id.* ¶ 304.

13 179. First Franklin has also been sued by Ambac Assurance Corporation, a  
14 company that provided monoline insurance, a form of credit enhancement for certain  
15 certificates in a RMBS. After paying hundreds of millions of dollars to certificate  
16 holders as a result of the many defaults and delinquencies on First Franklin-originated  
17 loans, Ambac reviewed 1,750 First Franklin loans. It found that 94% had material  
18 defects, including:

- 19 • Rampant fraud, primarily involving misrepresentation of the borrower’s  
20 income, assets, employment, or intent to occupy the property;
- 21 • Failure by the borrower to accurately disclose his or her liabilities,  
22 including multiple other mortgage loans taken out to purchase additional  
23 investment property;
- 24 • Inflated appraisals; and
- 25 • Pervasive violations of the loan originator’s own underwriting guidelines  
26 and prudent mortgage-lending practices, including loans made to  
27 borrowers (i) who made unreasonable claims as to their income, (ii) with  
28 debt-to-income and loan-to-value ratios above the allowed maximums, or

(iii) with relationships to the applicable originator or other non-arm's-length relationships.  
Compl., *Ambac Assurance Corp. v. First Franklin Fin. Corp.*, ¶¶ 82-83, 651217/2012 (N.Y. Sup. Ct. filed Apr. 16, 2012).

180. As shown by statements from former employees, First Franklin's actual mortgage underwriting practices deviated widely from its stated guidelines. This systematic disregard of underwriting standards led to toxic loans being bundled into securities and sold to investors who did not know, and could not have known, about the true nature of the loans backing their securities.

#### **6. First National Bank of Nevada's Systematic Disregard of Underwriting Standards**

181. First National Bank of Nevada ("FNBN") originated or contributed a material portion of loans in the mortgage pool underlying the NAA 2006-AR4 offering. *See infra* Table 10.

182. First National Bank Arizona ("FNB Arizona"), FNB Nevada, and First Heritage Bank were controlled by First National Bank Holding Company ("FNB Holding"), collectively ("FNB Group"). All were under common management. *See* Department of the Treasury, Office of the Inspector General, *Audit Report: Safety and Soundness: Material Loss Review of First National Bank of Nevada and First Heritage Bank, National Association* at 4 (Feb. 27, 2009) ("FNB Nevada OIG Report"), available at <http://www.treasury.gov/about/organizational-structure/ig/Documents/oig09033.pdf>; David Enrich and Damian Paletta, *Failed Lender Played Regulatory Angles*, Wall St. J. (Oct. 3, 2008), available at <http://online.wsj.com/article/SB122298993937000343.html>.

183. For residential mortgage lending, the names FNB Arizona and FNB Nevada were interchangeable. FNB Arizona ran the FNB Group's residential mortgage lending operation. *See* FNB Nevada OIG Report at 4.

184. The amount of mortgage loans originated by FNB Nevada grew from \$1.5 billion in 2001 to \$7 billion in 2006. *See* Enrich and Paletta, Failed Lender Played Regulatory Angles. FNB Nevada was an OTD lender; in 2006, \$6.9 billion of its loans were packaged into RMBS. *See* FNB Nevada OIG Report at 5.

185. A series of investigations by the OCC detail how FNB Nevada achieved its rapid growth by pervasively disregarding its underwriting guidelines.

186. In 2004, the OCC inspected FNB Nevada and determined that it needed better “[p]rocedures to reduce underwriting exceptions” and better “[p]olicies and internal controls over the use of appraisers.” FNB Nevada OIG Report at 44.

187. A 2005 OCC investigation found that “[c]redit underwriting and administration need improvement. The quickness of loan production has had priority over quality. Issues include loan appraisal violations (repeat issue) and inadequate practices over standby letters of credit.” It recommended FNB Nevada “develop and implement procedures and accountability that are effective in reducing the high level of underwriting exceptions (repeat issue)” and reduce the number of employee and vendor errors in loan origination. It also cited FNB Nevada for two regulatory violations—failing to appraise properties prior to closing and failing to use independent appraisers. *Id.* at 44-46.

188. A 2006 investigation found that FNB Nevada still had not implemented “effective procedures and processes to reduce the level and number of underwriting exceptions.” The OCC also noted that appraisers’ reports were often missing or incomplete. *Id.* at 47

189. In 2007, FNB Nevada’s liquidity problems prompted the OCC to initiate an informal enforcement action. It cited several matters requiring the direct attention of the bank’s board, including internal loan review that lacked independence due to executive management influence, understaffed internal loan review, staffing levels and expertise that were not commensurate with the complexities of the bank’s operations, and (yet again) the need to reduce underwriting exceptions. *See id.* at 48-50.

190. FNB Nevada's underwriting practices became so poor that in 2007 it was unable to sell \$683 million of residential mortgages to securitizers. It was also forced to repurchase a number of its poorly underwritten mortgages. This contributed to a liquidity crisis for the entire FNB Group. *See id.* at 2, 6.

191. On June 30, 2008 FNB Arizona merged into FNB Nevada. Shortly thereafter, the OCC closed FNB Nevada and appointed the FDIC as its receiver. Press Release, *OCC Closes First National Bank of Nevada and Appoints FDIC Receiver* (July 25, 2008), *available at* <http://www.occ.gov/news-issuances/news-releases/2008/nr-occ-2008-87.html>.

192. In its capacity as receiver for FNB Nevada, the FDIC sued the former directors and officers of the FNB Group. Compl., *FDIC v. Dorris*, No. 11-1652 (D. Ariz. filed Aug. 23, 2011). The FDIC alleged the same pervasive disregard of underwriting guidelines described above. *See id.* ¶¶ 38-42.

193. That complaint detailed how the bank's compensation structure was tied to the volume of loans originated, creating an incentive for bank employees to disregard the underwriting guidelines. *See id.* ¶ 30. FNB Nevada also used many mortgage brokers who had the same volume-based incentive to disregard underwriting guidelines and to inflate appraisals. *See id.* ¶¶ 33-34.

194. The suit settled less than two months after it was filed. Final Judgment Order, *FDIC v. Dorris*, Doc. 15, No 11-1652 (D. Ariz. Oct. 13, 2011).

195. Evidence uncovered in *Plumbers' Union Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp.*, No. 08-10446 (D. Mass. filed Oct. 1, 2012) further highlights FNB Nevada's disregard of its underwriting guidelines. There, the Court allowed the Plumber's Union to engage in limited discovery, which uncovered four pertinent pieces of evidence:

- “[T]hree ‘representative’ no-document loans that [FNB Nevada] originated. In each of these ‘No Doc’ loans, the borrower’s income was either unknown or unverified, or inadequate to make payments on the

1 underlying mortgage, or if not, the borrower's debt to income ratio (DTI)  
2 belied any realistic probability that the borrower could keep up with  
3 mortgage payments over the life of the loan."

- 4 • "[T]he declaration of Susan Wright, who underwrote loans at [FNB  
5 Nevada] in 2006 and 2007 and generally corroborates the Complaint's  
6 allegations about [FNB Nevada]'s underwriting practices." "Wright  
7 describes [FNB Nevada]'s business model as trying to 'make as many  
8 loans as possible and then sell them as quickly as possible' and explains  
9 that their underwriting practices instructed underwriters to remove  
10 income and asset information already in the possession of [FNB Nevada]  
11 from 'No Doc' loans. She states that [FNB Nevada] regularly made loans  
12 to borrowers whom '[FNB Nevada] knowingly qualified on the basis of  
13 what appeared to be obviously false information [and] [FNB Nevada] did  
14 not appear to reasonably expect that the borrowers would be able to  
15 repay these loans.'"

- 16 • "[S]everal emails generated by [FNB Nevada] employees, including  
17 Mortgage Division President Pat Lamb; Vice President of Risk  
18 Management Renea Aderhold; 'SVP Ops/Communication Manager'  
19 Beth Rothmuller; Senior Vice President Lisa Sleeper; and Senior Vice  
20 President and Risk Officer Eric Meschen, which collectively paint a  
21 picture of a devil-may-care underwriting culture."

- 22  
23 • "[T]he expert report of Ira Holt, an accountant who performed a forensic  
24 analysis of 408 of the Trusts' loans using the [FNB Nevada] guidelines  
25 that were in place when they were originated. Holt found that 108  
26 (26.5%) had material defects that violated even [FNB Nevada]'s slack  
27 underwriting standards." "According to Holt, he was unable to 're-  
28



1 underwrite' some of the 408 loans because of the lack of documentation,  
2 as well as the 'scrubbing' of the applicant's disqualifying data by [FNB  
3 Nevada]. According to plaintiffs, the number of loans in the sample with  
4 material defects may be considerably higher than Holt's estimates."

5 *Plumber's Union Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp.*, 08-10446-  
6 RGS, 2012 WL 4480735, at \*3 & nn. 6, 8 (D. Mass. Oct. 1, 2012).

7 196. The Court held allegations based on that evidence were sufficient to  
8 survive a motion to dismiss. *See id.* at \*3 ("[D]efendants' efforts to impugn plaintiffs'  
9 evidence is largely factual in nature and better fitted to a summary judgment motion  
10 than the relaxed pleading standard that attaches to a Rule 12(b)(6) motion.").

11 197. Lehman Brothers has also sued FNB Nevada for selling mortgages  
12 containing misrepresentations about borrowers' finances, employment, and the nature  
13 of the property. That case settled for an undisclosed amount. *See* Philip Shiskin,  
14 *Bankers Escape Big Penalties in FDIC Failed Bank Case* (Feb. 23, 2012), *available at*  
15 [http://www.reuters.com/article/2012/02/23/us-bankers-fdic-](http://www.reuters.com/article/2012/02/23/us-bankers-fdic-idUSTRE81M1UH20120223)  
16 [idUSTRE81M1UH20120223](http://www.reuters.com/article/2012/02/23/us-bankers-fdic-idUSTRE81M1UH20120223); Compl., *Lehman Mortg. Trust Mortg. v. First Nat'l Bank of*  
17 *Nev.*, Nos. CV2006-018929 (AZ Super. Ct., Maricopa Cnty. filed Dec. 12, 2006).

## 18 **7. IndyMac Bank's Systematic Disregard of Underwriting** 19 **Standards**

20 198. IndyMac Bank ("IndyMac") originated or contributed a material portion  
21 of the loans in the mortgage pools underlying the INDX 2006-AR35, LUM 2007-1,  
22 and HVMLT 2006-14 offerings. *See infra* Table 10.

23 199. On July 11, 2008, just four months after IndyMac filed its 2007 Annual  
24 Report, federal regulators seized IndyMac in what was among one of the largest bank  
25 failures in U.S. history. IndyMac filed for bankruptcy on July 31, 2008.

26 200. On March 4, 2009, the Office of the Inspector General of the United  
27 States Department of the Treasury ("Treasury OIG") issued Audit Report No. OIG-  
28 09-032, titled "Safety and Soundness: Material Loss Review of IndyMac Bank, FSB"



1 (the “IndyMac OIG Report”), reporting the results of the Treasury OIG’s review of  
2 the failure of IndyMac. The IndyMac OIG Report portrays IndyMac as a company  
3 determined to originate as many loans as possible, as quickly as possible, without  
4 regard for the quality of the loans, the creditworthiness of the borrowers, or the value  
5 of the underlying collateral.

6 201. According to the IndyMac OIG Report, “[t]he primary causes of  
7 IndyMac’s failure were . . . associated with its” “aggressive growth strategy” of  
8 “originating and securitizing Alt-A loans on a large scale.” IndyMac OIG Report at 2.  
9 The report found, “IndyMac often made loans without verification of the borrower’s  
10 income or assets, and to borrowers with poor credit histories. Appraisals obtained by  
11 IndyMac on underlying collateral were often questionable as well.” *Id.*

12 202. IndyMac “encouraged the use of nontraditional loans,” engaged in  
13 “unsound underwriting practices,” and “did not perform adequate underwriting,” in an  
14 effort to “produce as many loans as possible and sell them in the secondary market.”  
15 *Id.* at 11, 21. The IndyMac OIG Report reviewed a sampling of loans in default and  
16 found “little, if any, review of borrower qualifications, including income, assets, and  
17 employment.” *Id.* at 11.

18 203. IndyMac was not concerned by the poor quality of the loans or the fact  
19 that borrowers simply “could not afford to make their payments” because, “as long as  
20 it was able to sell those loans in the secondary mortgage market,” IndyMac could  
21 remain profitable. *Id.* at 2-3.

22 204. IndyMac’s “risk from its loan products . . . was not sufficiently offset by  
23 other underwriting parameters, primarily higher FICO scores and lower LTV ratios.”  
24 *Id.* at 31.

25 205. Unprepared for the downturn in the mortgage market and the sharp  
26 decrease in demand for poorly underwritten loans, IndyMac found itself “hold[ing]  
27 \$10.7 billion of loans it could not sell in the secondary market.” *Id.* at 3. This proved  
28 to be a weight it could not bear, and IndyMac ultimately failed. *See id.*

1           206. In June 2008, the Center for Responsible Lending (“CRL”) published a  
2 report titled *IndyMac: What Went Wrong? How an ‘Alt-A’ Leader Fueled its Growth with*  
3 *Unsound and Abusive Mortgage Lending* (June 30, 2008) (“CRL Report”), available at  
4 [http://www.responsiblelending.org/mortgage-lending/research-](http://www.responsiblelending.org/mortgage-lending/research-analysis/indymac_what_went_wrong.pdf)  
5 [analysis/indymac\\_what\\_went\\_wrong.pdf](http://www.responsiblelending.org/mortgage-lending/research-analysis/indymac_what_went_wrong.pdf). The CRL Report detailed the results of the  
6 CRL’s investigation into IndyMac’s lending practices. CRL based its report on  
7 interviews with former IndyMac employees and reviewed numerous lawsuits filed  
8 against IndyMac. The CRL Report summarized the results of its investigation as  
9 follows:

10           IndyMac’s story offers a body of evidence that discredits the notion that  
11 the mortgage crisis was caused by rogue brokers or by borrowers who  
12 lied to bankroll the purchase of bigger homes or investment properties.  
13 CRL’s investigation indicates many of the problems at IndyMac were  
14 spawned by top-down pressures that valued short-term growth over  
15 protecting borrowers and shareholders’ interests over the long haul.  
16 CRL Report at 1.

17           207. CRL reported that its investigation “uncovered substantial evidence that  
18 [IndyMac] engaged in unsound and abusive lending during the mortgage boom,  
19 routinely making loans without regard to borrowers’ ability to repay [the mortgage  
20 loans].” *Id.* at 2.

21           208. The CRL Report stated that “IndyMac pushed through loans with fudged  
22 or falsified information or simply lowered standards so dramatically that shaky loans  
23 were easy to approve.” *Id.*

24           209. The CRL Report noted that, “[a]s IndyMac lowered standards and  
25 pushed for more volume,” “the quality of [IndyMac’s] loans became a running joke  
26 among its employees.” *Id.* at 3.

27           210. Former IndyMac mortgage underwriters explained that “loans that  
28 required no documentation of the borrowers’ wages” were “[a] big problem” because

1 “these loans allowed outside mortgage brokers and in-house sales staffers to inflate  
2 applicants’ [financial information] . . . and make them look like better credit risks.” *Id.*  
3 at 8. These “shoddily documented loans were known inside the company as  
4 ‘Disneyland loans’—in honor of a mortgage issued to a Disneyland cashier whose loan  
5 application claimed an income of \$90,000 a year.” *Id.* at 3.

6 211. The CRL also found evidence that: (1) managers pressured underwriters  
7 to approve shaky loans in disregard of IndyMac’s underwriting guidelines; and (2)  
8 managers overruled underwriters’ decisions to deny loans that were based upon  
9 falsified paperwork and inflated appraisals. For instance, Wesley E. Miller, who  
10 worked as a mortgage underwriter for IndyMac in California from 2005 to 2007, told  
11 the CRL:

12 [W]hen he rejected a loan, sales managers screamed at him and then went  
13 up the line to a senior vice president and got it okayed. “There’s a lot of  
14 pressure when you’re doing a deal and you know it’s wrong from the get-  
15 go—that the guy can’t afford it,” Miller told CRL. “And then they  
16 pressure you to approve it.”

17  
18 The refrain from managers, Miller recalls, was simple: “Find a way to  
19 make this work.”

20 *Id.* at 9 (footnote omitted).

21 212. Likewise, Audrey Streater, a former IndyMac mortgage underwriting  
22 team leader, stated: “I would reject a loan and the insanity would begin. It would go  
23 to upper management and the next thing you know it’s going to closing.” *Id.* at 1, 3.  
24 Streater also said the “prevailing attitude” at IndyMac was that underwriting was  
25 “window dressing—a procedural annoyance that was tolerated because loans needed  
26 an underwriter’s stamp of approval if they were going to be sold to investors.” *Id.* at 8.

27 213. Scott Montilla, who was an IndyMac mortgage loan underwriter in  
28 Arizona during the same time period, told the CRL that IndyMac management would

1 override his decision to reject loans about 50% of the time. *See id.* at 9. According to  
2 Montilla:

3 “I would tell them: ‘If you want to approve this, let another underwriter  
4 do it, I won’t touch it—I’m not putting my name on it,’” Montilla says.

5 “There were some loans that were just blatantly overstated. . . . Some of  
6 these loans are very questionable. They’re not going to perform.”

7 *Id.* at 10.

8 214. Montilla and another IndyMac mortgage underwriter told the CRL that  
9 borrowers did not know their stated incomes were being inflated as part of the  
10 application process. *See id.* at 14.

11 215. On July 2, 2010, the FDIC sued certain former officers of IndyMac’s  
12 Homebuilder Division (“HBD”), alleging that IndyMac disregarded its underwriting  
13 practices, among other things, and approved loans to borrowers who were not  
14 creditworthy or for projects with insufficient collateral. *See* Compl. ¶ 6, *FDIC v. Van*  
15 *Dellen*, No. 2:10-cv-04915-DSF (C.D. Cal. filed July 2, 2010).

16 216. After a month-long jury trial, the jury returned a unanimous verdict in  
17 favor of the FDIC for \$169 million in damages.

18 217. IndyMac currently faces a class action lawsuit alleging disregard of  
19 underwriting standards that adversely affected the value of the purchased RMBS. *See*  
20 *Class Action Compl., In re IndyMac Mortgage-Backed Sec. Litig.*, No. 09-4583 (S.D.N.Y.  
21 filed May 14, 2009). On June 21, 2010, the class action suit survived a motion to  
22 dismiss.

23 218. Like loan purchasers, insurers of RMBS also typically require the insured  
24 party to repurchase loans suffering Early Payment Default in order to protect  
25 themselves against fraud and poor underwriting.

26 219. MBIA filed a breach of contract claim against IndyMac (with the FDIC  
27 representing IndyMac as conservator and receiver) in May 2009, claiming that  
28 IndyMac made contractual misrepresentations concerning its adherence to its

1 underwriting standards in processing mortgage loan applications. *See* Compl., *MBLA*  
2 *Ins. Corp. v. IndyMac Bank, FSB*, No. 1:09-cv-01011-CKK (D.D.C. filed May 29, 2009).  
3 A motion to dismiss is pending.

4 220. IndyMac's failure to abide by its underwriting standards left investors  
5 holding severely downgraded junk securities. As a result of IndyMac's systematic  
6 disregard of its underwriting standards, the OCC included IndyMac in the OCC's 2008  
7 "Worst Ten in the Worst Ten" Report. IndyMac ranked 10th in Las Vegas, Nevada,  
8 in both 2008 and 2009, while coming in at 10th in Merced, California, Riverside-San  
9 Bernardino, California, and Modesto, California, in 2009. *See* 2008 "Worst Ten in the  
10 Worst Ten" Report; 2009 "Worst Ten in the Worst Ten" Report.

11 **8. MortgageIT's Systematic Disregard of Underwriting**  
12 **Standards**

13 221. MortgageIT, Inc. ("MortgageIT") originated or contributed a material  
14 portion of the loans underlying the MHL 2006-1 offering. *See infra* Table 10.

15 222. MortgageIT is a residential mortgage banking company headquartered in  
16 New York, New York. On January 3, 2007, MortgageIT was acquired by Deutsche  
17 Bank Structured Products. Less than a year after the acquisition, MortgageIT began its  
18 precipitous decline from one of the largest mortgage originators in the country, laying  
19 off hundreds of employees and closing multiple branches.

20 223. MortgageIT faces a civil mortgage fraud lawsuit brought in May 2011 by  
21 the United States Department of Justice ("DOJ") that alleges MortgageIT made  
22 repeated false certifications to the U.S. Department of Housing and Urban  
23 Development ("HUD") in connection with its residential mortgage origination and  
24 sponsorship practices. *See United States v. Deutsche Bank AG and MortgageIT, Inc.*, No.  
25 11-cv-02976 (S.D.N.Y.). An amended complaint was filed on August 22, 2011 ("DOJ  
26 Complaint").

27 224. The United States alleges that "MortgageIT repeatedly lied to be included  
28 in a Government program to select mortgages for insurance by the Government.

1 Once in that program, they recklessly selected mortgages that violated program rules in  
2 blatant disregard of whether borrowers could make mortgage payments.” DOJ  
3 Complaint ¶ 1.

4 225. According to the DOJ Complaint, “As of June 2011, HUD has paid  
5 more than \$368 million in FHA insurance claims and related costs arising out of  
6 MortgageIT’s approval of mortgages for FHA insurance. Many of those claims arose  
7 out of FHA mortgage insurance provided by HUD based on MortgageIT’s false  
8 certifications of due diligence.” *Id.* ¶ 233.

9 226. The complaint also alleges that MortgageIT chronically understaffed  
10 quality control: “Between 2006 and 2009, the sole employee at Deutsche Bank or  
11 MortgageIT conducting quality control reviews of closed FHA-insured mortgages was  
12 the Government Loan Auditor. His review of closed FHA-insured mortgages  
13 continually declined during that period, and declined most significantly after Deutsche  
14 Bank acquired MortgageIT. By the end of 2007, the Government Loan Auditor was  
15 no longer spending any time conducting quality control reviews of closed mortgage  
16 files. To increase sales, Deutsche Bank and MortgageIT shifted his work from quality  
17 control reviews of closed mortgages (*i.e.*, quality control audits) to assistance with  
18 production. By the end of 2007, not a single person at Deutsche Bank or MortgageIT  
19 was conducting quality control reviews of closed FHA-insured mortgages, as required  
20 by HUD rules.” *Id.* ¶ 143-144.

21 227. MortgageIT allegedly also ignored quality control measures. For  
22 example, MortgageIT contracted with an outside vendor to conduct quality control  
23 reviews of FHA insured loans. The vendor provided the reviews in letters detailing  
24 underwriting violations found in FHA-insured mortgages to MortgageIT. The  
25 findings included identification of serious underwriting violations. Instead of reading  
26 the letters, MortgageIT employees “stuffed the letters, unopened and unread, in a  
27 closet in MortgageIT’s Manhattan headquarters.” It was not until MortgageIT hired its  
28 first quality control manager that these letters were taken out of the closet and read.



1 Accordingly, “MortgageIT’s failure to read the audit reports from its outside vendor  
2 prevented MortgageIT from taking appropriate actions to address patterns of ongoing  
3 underwriting violations.” *Id.* ¶ 111-124.

4 228. The Amended DOJ Complaint further alleges that “Deutsche Bank’s and  
5 MortgageIT’s failure to implement the required quality control systems rendered them  
6 unable to prevent patterns of mortgage underwriting violations and mortgage fraud.”  
7 *Id.* ¶ 145.

8 229. Additionally, the complaint alleges that “contrary to the certifications  
9 appearing on each and every mortgage endorsed by MortgageIT, MortgageIT engaged  
10 in a nationwide pattern of failing to conduct due diligence in accordance with HUD  
11 rules and with sound and prudent underwriting principles.” *Id.* ¶ 162.

12 230. The complaint cites many examples of MortgageIT’s failure to perform  
13 due diligence. These examples, all violations of HUD rules, include the following:

- 14 • failure to develop a credit score for borrowers who had no credit score;
- 15 • failure to verify a borrower’s cash investment in a property;
- 16 • failure to verify employment by telephone, and to record the name and
- 17 • telephone number of the person who verified employment on behalf of
- 18 the employer;
- 19 • failure to verify the source of earnest money deposits that appear
- 20 excessive in relation to the borrower’s savings by completing a
- 21 verification of deposit, or by collecting bank statements, to document
- 22 that the borrower had sufficient funds to cover the deposit;
- 23 • failure to ensure that gift funds are not provided by a party to the sales
- 24 transaction; failure to examine irregularities in mortgage applications such
- 25 as conflicting records of employment in the same file;
- 26 • failure to obtain the required documentation to verify the borrower’s
- 27 mortgage payment history and income;
- 28



- failure to obtain the required documentation to verify the borrower's employment, income, and depository assets; failure to verify a borrower's current employment and obtain the borrower's most recent pay stub, along with failure to obtain income tax returns for a self-employed borrower or borrower paid on commission; and
- failure to obtain a credit report on all borrowers who will be obligated on the mortgage note.

*See id.* ¶¶ 162-230.

231. On May 9, 2012, the parties settled the case for \$202.3 million.

### **9. Option One Mortgage Corporation's Systematic Disregard of Underwriting Standards**

232. Option One Mortgage Corporation ("Option One") was a California corporation headquartered in Irvine, California. Option One originated, serviced, acquired, and sold non-prime residential mortgages. The company was founded in 1992 and, from June 1997 until April 2008, was a subsidiary of Block Financial Corporation. In April 2008, Option One's assets were sold to American Home Mortgage Servicing, Inc.

233. Option One originated or contributed a material portion of the loans in the mortgage pool underlying the SVHE 2005-OPT4 offering. *See infra* Table 10.

234. Option One disregarded its underwriting practices while focusing on selling the loans it originated to Wall Street banks for securitization, according to the complaint in *Cambridge Place Inv. Mgmt. v. Morgan Stanley & Co.*, No. 10-2741 (Mass. Super. Ct. filed July 9, 2010); *see also* Tom Hals, *Fund Sues Banks for \$1.2 Billion Loss Tied to Subprime*, REUTERS, July 12, 2010, *available at* <http://www.reuters.com/article/2010/07/12/us-cambridgeplace-subprime-lawsuit-idUSTRE66B61220100712>.

235. In that case, the court denied Morgan Stanley's motion to dismiss, holding that the plaintiff had adequately alleged misstatements regarding compliance with underwriting guidelines, LTV ratios, and owner-occupancy ratios for RMBS that

1 included Option One loans. Notably, the court relied on statements from former  
2 Option One employees that “of course [Option One] inflated [appraisal] values,” and  
3 that if an Option One underwriter questioned appraisal values, an account executive or  
4 branch manager would override the objection. *See Cambridge Place Inv. Mgmt., Inc. v.*  
5 *Morgan Stanley & Co.*, No. 10-2741, 2012 WL 5351233 (Mass. Super. Ct. Sept. 28,  
6 2012).

7 236. The Massachusetts Attorney General sued Option One, alleging, among  
8 other things, that Option One failed to follow its own underwriting standards by  
9 overstating applicants’ incomes and inflating appraisal values. *See Massachusetts v. H&R*  
10 *Block, Inc.*, Complaint ¶ 8, No. 08-2474-BLS (Mass. Super. Ct. filed June 3, 2008); *see*  
11 *also* Tim McLaughlin, *Caturano Being Acquired by RSM McGladrey*, Boston Bus. J., June  
12 24, 2010, *available at* [http://www.bizjournals.com/boston/stories/2010/06/21](http://www.bizjournals.com/boston/stories/2010/06/21/daily45.html?page=all)  
13 [/daily45.html?page=all](http://www.bizjournals.com/boston/stories/2010/06/21/daily45.html?page=all).

14 237. That suit settled in 2011 for value of \$115 million. After three years of  
15 investigation and litigation, Massachusetts’s Attorney General stated that Option One  
16 “employed a business model that absolutely failed to gauge the ability of borrowers to  
17 repay the loans.... In other words, they knew or should have known that those loans  
18 were going to fail.” *Massachusetts Settles Suit Against a Mortgage Lender*, NY Times, Aug.  
19 9, 2011, *available at* [http://www.nytimes.com/2011/08/10/business/massachusetts-](http://www.nytimes.com/2011/08/10/business/massachusetts-settles-lawsuit-against-mortgage-firm.html)  
20 [settles-lawsuit-against-mortgage-firm.html](http://www.nytimes.com/2011/08/10/business/massachusetts-settles-lawsuit-against-mortgage-firm.html).

21 238. The FHLB Chicago Am. Complaint also contains statements from  
22 confidential witnesses describing Option One’s systematic disregard of its  
23 underwriting guidelines.

24 239. According to one confidential witness, who was a senior review appraiser  
25 at a California branch from April 2001 to December 2006, underwriters often failed to  
26 spot “red flags” in the appraisal value for a loan. Option One also “watered down” its  
27 appraisal system so that fewer loans were “kicked over to the appraisal department.”  
28 FHLB Chicago Am. Compl. ¶ 377. Even when Option One’s staff appraisers did

1 receive loans for review and decided that the appraisals needed to be adjusted, Option  
2 One would sometimes disregard those appraisers' reports. *See id.* ¶ 378.

3 240. The same confidential witness explained how Option One wanted its  
4 employees to "be more aggressive"; it was made clear that the main objective of the  
5 company was to generate loans—"[a]s long as they could sell it, that's what mattered."  
6 *Id.* ¶ 375.

7 241. Another confidential witness, who was a senior account manager at a  
8 Georgia branch from August 2005 until April 2006, one particular broker who worked  
9 with Option One "was given preferential treatment and his loans were always pushed  
10 through" despite the fact that his loan files did not contain the required  
11 documentation because he provided the company with "lots and lots of loans." *Id.*  
12 ¶ 376.

13 **10. Residential Funding Co.'s Systematic Disregard of**  
14 **Underwriting Guidelines**

15 242. Residential Funding Co. ("RFC") originated or contributed a material  
16 portion of the loans in the mortgage pool underlying the HVMLT 2007-2 offering. *See*  
17 *infra* Table 10.

18 243. RFC's underwriting practices are implicated in two lawsuits filed by  
19 MBIA, Inc. MBIA provided monoline insurance, a form of credit enhancement that  
20 insured loans in the event of default, for RMBS containing RFC-originated loans. In  
21 its suits, MBIA alleges misrepresentations regarding the loans underlying the RMBS  
22 that it insured. The RMBS in these suits were issued in 2006 and 2007. *See* Compl.,  
23 *MBIA Ins. Corp. v. Ally Fin., Inc.*, No. 12-18889 (MN Ct., Hennepin Cnty. filed Sept. 17,  
24 2012) ("*MBIA v. Ally* Compl."); First Am. Compl., *MBIA Ins. Corp. v. Residential*  
25 *Funding Co.*, No. 603552/2008 (N.Y. Sup. Ct. filed Mar. 19, 2010) ("*MBIA v. RFC*  
26 *Compl.*").

27 244. Ally Financial was the parent company of RFC. *See* Ally Financial, Inc.,  
28 Form 10-K, Ex. 21 (2011); GMAC LLC, Form 10-K, Ex. 21 (2006).

1           245. RFC sponsored RMBS at issue in those suits and originated or acquired  
2 many of the loans underlying RMBS at issue in those suits. *See MBLA v. Ally* Compl.  
3 ¶¶ 5, 22; *MBLA v. RFC* Compl. ¶ 2.

4           246. After sustaining large losses due to loan defaults, MBIA conducted  
5 forensic analyses of several thousand loans underlying the RMBS sponsored by RFC.  
6 In *MBLA v. RFC*, MBIA reviewed 7,913 loans and found that 7,019 (88%) contained  
7 material misrepresentations. *MBLA v. RFC* Compl. ¶ 50; *see also MBLA v. Ally* Compl.  
8 ¶ 80. The material misrepresentations included, among other things, routine disregard  
9 of underwriting guidelines, debt-to-income (“DTI”) and CLTV that exceeded the  
10 amounts allowed in the underwriting guidelines, failure to verify employment as  
11 required by underwriting guidelines, and improper reliance on the Assetwise program.  
12 *See MBLA v. Ally* Compl. ¶¶ 76-83; *MBLA v. RFC* Compl. ¶¶ 47-72.

13           247. Representative examples of the misrepresentations MBIA uncovered  
14 include:

- 15           • On November 30, 2006, a loan with a principal balance of \$140,000 was  
16 made to a borrower in Newton, Massachusetts on a property with an  
17 original appraisal value of \$740,000 and a senior loan balance of  
18 \$513,567. The property subject to the loan was a non-owner occupied  
19 investment property. The borrower stated his income to be \$41,666 per  
20 month (\$500,000 per year) as the owner of a Wine/Spirits store. Further,  
21 the borrower did not demonstrate any liquid assets. The stated income  
22 was unreasonable based on the borrower’s employment and not  
23 substantiated by the borrower’s credit/asset profile. Notably, the  
24 borrower filed for bankruptcy in 2007 in connection with which the  
25 borrower claimed to have earned \$0.00 for 2006. Further, the appraisal  
26 indicated the property failed to conform to legal standards and the loan  
27 file lacked any letter from the local authority regarding rebuilding. RFC  
28 Underwriting Guidelines require verification of 6 months of reserves for

1 the monthly Principle, Interest, Taxes and Insurance (“PITI”) payments  
2 for stated income loans on non-owner occupied investment properties  
3 yet there is no indication in the loan files that these reserves were  
4 identified or verified. Finally, RFC guidelines limit loans under the non-  
5 owner occupied loan program to \$100,000, \$40,000 less than was loaned.

- 6 • On March 16, 2007, a loan with a principal balance of \$40,000 was made  
7 to a borrower in Bradenton, Florida on a property with an original  
8 appraisal value of \$440,000 and a senior loan balance of \$328,000. The  
9 borrower [wa]s retired and receive[d] a fixed income that was stated as  
10 \$6,450 per month. The borrower’s FICO credit score of 688 required  
11 the DTI for the loan not to exceed 45%, however, the borrower’s DTI  
12 was 55.93%. Because the borrower received a fixed income, the  
13 borrower d[id] not meet the residual income requirements for a higher  
14 DTI under RFC’s Underwriting Guidelines. Further, the loan file lacks  
15 any evidence of 2 months of PITI reserves as required by RFC’s  
16 Underwriting Guidelines.

- 17 • On July 24, 2006, a loan with a principal balance of \$29,500 was made to  
18 a borrower in Flint, Michigan on a property with an original appraisal  
19 value of \$57,497 and a senior loan balance of \$24,676. The borrower  
20 stated income of \$3,700 per month and had a FICO score of 650. The  
21 CLTV for the mortgage loan was 94.2%. Pursuant to RFC’s  
22 Underwriting Guidelines, the borrower was required to have monthly  
23 income of \$4,000 and the CLTV for the loan could not exceed 80%.  
24 Further, the loan file lacks evidence of a full appraisal for the property as  
25 well as evidence of 2 months of PITI reserves, both of which are  
26 required by RFC’s Underwriting Guidelines.

- 27 • On November 12, 2006, a loan with a principal balance of \$135,000.00  
28 was made to a borrower in Scottsdale, Arizona on a property with an

original appraisal value of \$540,000.00 and a senior loan balance of \$405,000.00. The borrower stated income of \$11,000 per month as a sales manager at a concrete company, however, the borrower could only demonstrate assets of \$11,491. The stated income was unreasonable based on the borrower's employment and not substantiated by the borrower's credit/asset profile. Notably, the borrower filed for bankruptcy in 2008 in connection with which the borrower claimed to have actually earned \$43,523 for 2006 and \$20,401 for 2007. Additionally, the bank account used to verify the borrower's reserves is actually held in the name of the loan officer that issued the loan.

*MBLA v. RFC* Compl. ¶ 52.

248. These suits are still pending. The *MBLA v. RFC* suit has survived a motion to dismiss. Order, *MBLA v. RFC*, No. 603552/08 (N.Y. Sup. Ct. Dec. 22, 2009).

#### **11. Silver State Mortgage's Systematic Disregard of Underwriting Standards**

249. Silver State Mortgage Company ("Silver State") was a national wholesale and residential mortgage lender headquartered in Las Vegas, Nevada. Silver State ceased operations in February 2007 amid the turmoil of the subprime mortgage crisis. The details of Silver State's mortgage lending practices slowly emerged after it ceased operations. Silver State originated or contributed a critical portion of loans in the mortgage pool underlying the NAA 2006-AR4 and NHELI 2007-1 offerings. *See infra* Table 10.

250. A former Silver State employee recounted his experiences as a loan officer with Silver State in a May 9, 2008 This American Life story on NPR entitled "The Giant Pool of Money." Mike Garner, the former Silver State employee, related how Silver State did not adequately assess whether the income of borrowers under



1 Silver State's "stated income" product was reasonable compared to the borrowers' line  
2 of work:

3 Garner: The next guideline lower is just stated income, stated assets.  
4 Then you state what you make and state what's in your bank account.  
5 They call and make sure you work where you say you work. Then an  
6 accountant has to say for your field it is possible to make what you said  
7 you make. But they don't say what you make, they just say it's possible  
8 that they could make that.

9 Alex Blumberg & Adam Davidson, *The Giant Pool of Money* (National Public Radio  
10 broadcast May 9, 2008), *transcript available at*  
11 [http://www.thisamericanlife.org/sites/default/files/355\\_transcript.pdf](http://www.thisamericanlife.org/sites/default/files/355_transcript.pdf).

12 251. Alex Blumberg, one of the NPR interviewers, commented on how easy it  
13 could have been to simply provide a W-2. Garner responded by describing the means  
14 by which loan officers would determine whether the income was reasonable for the  
15 occupation:

16 Blumberg: It's just so funny that instead of just asking people to prove  
17 what they make, there's this theater in place of you have to find an  
18 accountant sitting right in front of me who could very easily provide a  
19 W2, but we're not asking for a W2 form, but we do want this accountant  
20 to say yeah, what they're saying is plausible in some universe.

21  
22 Garner: Yeah, and loan officers would have an accountant they could  
23 call up and say "Can you write a statement saying a truck driver can make  
24 this much money?" Then the next one, came along, and it was no  
25 income, verified assets. So you don't have to tell the people what you do  
26 for a living. You don't have to tell the people what you do for work. All  
27 you have to do is state you have a certain amount of money in your bank  
28



1 account. And then, the next one, is just no income, no asset. You don't  
2 have to state anything. Just have to have a credit score and a pulse.

3 *Id.*

4 252. Garner recounted how his boss at Silver State despised these types of  
5 loan products that permitted such wanton disregard of underwriting standards.

6 Garner concluded:

7 Garner: Yeah. And my boss was in the business for 25 years. He hated  
8 those loans. He hated them and used to rant and say, "It makes me sick  
9 to my stomach the kind of loans that we do." He fought the owners and  
10 sales force tooth and neck about these guidelines. He got [the] same  
11 answer. Nope, other people are offering it. We're going to offer them  
12 too. We're going to get more market share this way. House prices are  
13 booming, everything's gonna [sic] be good. And . . . the company was  
14 just rolling in the cash. The owners and the production staff were just  
15 raking it in.

16 *Id.*

17 253. Instead, Silver State, like many other originators, focused on keeping up  
18 with the competition, sacrificing adherence to underwriting guidelines. This quixotic  
19 quest for higher profits and more market share ultimately failed as Silver State ceased  
20 operations in 2007, no longer maintaining any share of the mortgage market.

21 254. Witnesses quoted in Amended Complaint, *City of Ann Arbor Emps.' Ret.*  
22 *Sys. v. Citigroup Mortg. Loan Trust, Inc.*, No. 08-1418 (E.D.N.Y. filed Apr. 6, 2009),  
23 described Silver State's abandonment of underwriting guidelines.

24 255. A Las Vegas appraiser recounted conducting over 300 appraisals for  
25 Countrywide, Wells Fargo, Silver State, Aames, Argent, and Ameriquest that were  
26 inflated. Those originators typically demanded that appraisals exceed actual market  
27 value by 15% to 25%. *See id.* ¶ 81.

28

1           256. A former member of Silver State's Conditions Group – a group that  
2 attempted to cure conditions that disqualified borrowers – stated that in some cases  
3 underwriters would learn that the unverified information provided by borrowers could  
4 not be accurate, but would nonetheless ignore the inaccuracies. *See id.* ¶¶ 154, 156.

5                   **12. WaMu's Systematic Disregard of Underwriting Standards**

6           257. WaMu contributed a material portion of the loans in the mortgage pool  
7 underlying the HVMLT 2006-8 and LUM 2007-1 offerings. *See infra* Table 10.

8           258. WaMu was a Seattle-based thrift that rapidly grew from a regional to a  
9 national mortgage lender from 1991 to 2006. At over \$300 billion in total assets,  
10 WaMu was at one time the largest institution regulated by the Office of Thrift  
11 Supervision ("OTS"). On September 25, 2008, however, federal regulators closed  
12 WaMu when loan losses, borrowing capacity limitations, a plummeting stock price, and  
13 rumors of WaMu's problems led to a run on the thrift by depositors. Federal  
14 regulators facilitated the sale of WaMu to J.P. Morgan Chase & Co., in September  
15 2008.

16           259. In April 2010, the Treasury OIG, issued a report entitled, "Evaluation of  
17 Federal Regulatory Oversight of Washington Mutual Bank," Report No. EVAL-10-  
18 002 (the "WaMu OIG Report"), discussing the reasons for WaMu's meteoric rise and  
19 consequent collapse. The WaMu OIG Report found, "WaMu failed primarily because  
20 of management's pursuit of a high-risk lending strategy that included liberal  
21 underwriting standards and inadequate risk controls." WaMu OIG Report at 2. The  
22 report elaborated on how WaMu adopted this new strategy to compete with  
23 Countrywide and maximize profits:

24           In 2005, WaMu management made a decision to shift its business  
25 strategy away from originating traditional fixed-rate and conforming  
26 single family residential loans, towards riskier nontraditional loan  
27 products and subprime loans. WaMu pursued the new strategy in  
28 anticipation of increased earnings and to compete with Countrywide. . . .

1 . . .

2 WaMu estimated in 2006 that its internal profit margin from subprime  
3 loans could be more than 10 times the amount for a government-backed  
4 loan product and more than 7 times the amount for a fixed-rate loan  
5 product.

6 *Id.* at 8 (footnote omitted).

7 260. As previously noted in this Complaint, the PSI issued its report on the  
8 causes of the economic crisis. The PSI Wall Street Report used WaMu as its case  
9 study into lending practices of the mortgage industry during the housing bubble.  
10 Citing internal e-mails and correspondence the PSI obtained as part of its  
11 investigation, the PSI made the following factual findings:

12 (1) High Risk Lending Strategy. [WaMu] executives embarked upon a  
13 High Risk Lending Strategy and increased sales of high risk home loans  
14 to Wall Street, because they projected that high risk home loans, which  
15 generally charged higher rates of interest, would be more profitable for  
16 the bank than low risk home loans.

17  
18 (2) Shoddy Lending Practices. WaMu and its affiliate, [Long Beach], used  
19 shoddy lending practices riddled with credit, compliance, and operational  
20 deficiencies to make tens of thousands of high risk home loans that too  
21 often contained excessive risk, fraudulent information, or errors.

22  
23 (3) Steering Borrowers to High Risk Loans. WaMu and Long Beach too  
24 often steered borrowers into home loans they could not afford, allowing  
25 and encouraging them to make low initial payments that would be  
26 followed by much higher payments, and presumed that rising home  
27 prices would enable those borrowers to refinance their loans or sell their  
28 homes before the payments shot up.

1  
2 (4) Polluting the Financial System. WaMu and Long Beach securitized  
3 over \$77 billion in subprime home loans and billions more in other high  
4 risk home loans, used Wall Street firms to sell the securities to investors  
5 worldwide, and polluted the financial system with mortgage backed  
6 securities which later incurred high rates of delinquency and loss.

7  
8 (5) Securitizing Delinquency-Prone and Fraudulent Loans. At times,  
9 WaMu selected and securitized loans that it had identified as likely to go  
10 delinquent, without disclosing its analysis to investors who bought the  
11 securities, and also securitized loans tainted by fraudulent information,  
12 without notifying purchasers of the fraud that was discovered.

13  
14 (6) Destructive Compensation. WaMu's compensation system rewarded  
15 loan officers and loan processors for originating large volumes of high  
16 risk loans, paid extra to loan officers who overcharged borrowers or  
17 added stiff prepayment penalties, and gave executives millions of dollars  
18 even when their High Risk Lending Strategy placed the bank in financial  
19 jeopardy.

20 PSI Wall Street Report at 50-51.

21 261. In particular, the PSI Wall Street Report noted that WaMu had engaged  
22 in internal reviews of its lending practices and the lending practices of its subsidiary,  
23 Long Beach. WaMu's Chief Risk Officer, Ron Cathcart commissioned a study to look  
24 into the quality of loans originated by Long Beach. The review found that the "top  
25 five priority issues" were as follows:

26 "Appraisal deficiencies that could impact value and were not addressed[;]  
27 Material misrepresentations relating to credit evaluation were  
28 confirmed[;]

1 Legal documents were missing or contained errors or discrepancies[;]  
2 Credit evaluation or loan decision errors[; and]  
3 Required credit documentation was insufficient or missing from the file.”  
4 *Id.* at 82 (quoting e-mail from Ron Cathcart, Chief Risk Officer, WaMu, to Cory  
5 Gunderson (Dec. 11, 2006 9:21 AM PST)).

6 262. Pushing “Option ARMs” was a major part of WaMu’s new “high risk”  
7 lending strategy. In a bipartisan memorandum from Senators Carl Levin and Tom  
8 Coburn to the Members of the PSI, dated April 13, 2010, Option ARMs were labeled  
9 WaMu’s “flagship” product. *Wall Street and the Financial Crisis: The Role of High Risk*  
10 *Home Loans, Hearing Before S. Permanent Subcomm. on Investigations*, 112th Cong. (2010)  
11 (“PSI High Risk Home Loans Hearing”), Senate Ex. 1.a, at 3. The WaMu OIG  
12 Report describes the inherently dangerous nature of WaMu’s Option ARMs:

13 WaMu’s Option ARMs provided borrowers with the choice to pay their  
14 monthly mortgages in amounts equal to monthly principal and interest,  
15 interest-only, or a minimum monthly payment. Borrowers selected the  
16 minimum monthly payment option for 56 percent of the Option ARM  
17 portfolio in 2005.

18  
19 The minimum monthly payment was based on an introductory rate, also  
20 known as a teaser rate, which was significantly below the market interest  
21 rate and was usually in place for only 1 month. After the introductory  
22 rate expired, the minimum monthly payment feature introduced two  
23 significant risks to WaMu’s portfolio: payment shock and negative  
24 amortization. WaMu projected that, on average, payment shock  
25 increased monthly mortgage amounts by 60 percent. At the end of 2007,  
26 84 percent of the total value of Option ARMs on WaMu’s financial  
27 statements was negatively amortizing.

28 WaMu OIG Report at 9.

1           263. The WaMu OIG Report notes that “Option ARMs represented as much  
2 as half of all loan originations from 2003 to 2007 and approximately \$59 billion, or 47  
3 percent, of the home loans on WaMu’s balance sheet at the end of 2007.” *Id.*

4           264. The OIG also notes that WaMu’s “new strategy included underwriting  
5 subprime loans, home equity loans, and home equity lines of credit to high-risk  
6 borrowers. In line with that strategy, WaMu purchased and originated subprime loans,  
7 which represented approximately \$16 billion, or 13 percent, of WaMu’s 2007 home  
8 loan portfolio.” *Id.* at 10.

9           265. WaMu’s careless underwriting practices rendered these already high risk  
10 loan products even more risky. *See id.* The WaMu OIG Report stated that the OTS  
11 and the FDIC repeatedly “identified concerns with WaMu’s high-risk lending strategy”  
12 and loan underwriting, weaknesses in management, and “inadequate internal controls.”  
13 *Id.* at 3-4. Those concerns included “questions about the reasonableness of stated  
14 incomes contained in loan documents, numerous underwriting exceptions,  
15 miscalculations of loan-to-value ratios, and missing or inadequate documentation.”  
16 *Hearing on Wall Street & the Fin. Crisis: The Role of Bank Regulators Before the United States S.*  
17 *Homeland Security and Governmental Affairs Comm., Permanent Subcomm. on Investigations,*  
18 *111th Cong. 9 (Apr. 16, 2010) (statement of the Hon. Eric M. Thorson, Inspector*  
19 *General, Dep’t of the Treasury) (“Thorson Statement”).*

20           266. WaMu management began to notice the pattern of “first payment  
21 default” (“FPD”) for loans its Long Beach subsidiary originated. In June 2007, WaMu  
22 closed Long Beach as a separate entity and placed its subprime lending operations in a  
23 new division called “Wholesale Specialty Lending.”

24           267. In late 2007, WaMu performed an internal review to determine whether  
25 its plans to address its poor underwriting practices were effective. The review focused  
26 on 187 loans that experienced FPD, originated from November 2006 to March 2007.  
27 As an initial matter, the review found:  
28



1 The overall system of credit risk management activities and process has  
2 major weaknesses resulting in unacceptable level of credit risk. Exposure  
3 is considerable and immediate corrective action is essential in order to  
4 limit or avoid considerable losses, reputation damage, or financial  
5 statement errors.

6 PSI High Risk Home Loans Hearing, Senate Ex. 21, "WaMu Corporate Credit Review:  
7 Wholesale Specialty Lending-FPD" at 2 (Sept. 28, 2007).

8 268. Specifically, the WaMu internal review reported the following findings  
9 regarding the 187 FPD loans:

- 10 • (High) Ineffectiveness of fraud detection tools – 132 of the 187 (71%)  
11 files were reviewed by Risk Mitigation for fraud. Risk Mitigation  
12 confirmed fraud on 115 files and could not confirm on 17 of the files,  
13 but listed them as "highly suspect." This issue is a repeat finding with  
14 CCR.
- 15 • (High) Weak credit risk infrastructure impacting credit quality. Credit  
16 weakness and underwriting deficiencies is a repeat finding with CCR. It  
17 was also identified as a repeat finding and Criticism in the OTS Asset  
18 Quality memo 3 issued May 17, 2007. Internal Audit in their August 20,  
19 2007 Loan Origination & Underwriting report identified it as a repeat  
20 issue. Findings from the CCR FPD review in relation to credit quality:
  - 21 ○ 132 of the 187 loans sampled were identified with red flags that  
22 were not addressed by the business unit
  - 23 ○ 80 of the 112 (71%) stated income loans were identified for lack of  
24 reasonableness of income
  - 25 ○ 87 files (47%) exceeded program parameters in place at the time of  
26 approval
  - 27 ○ 133 (71%) had credit evaluation or loan decision errors present
  - 28 ○ 25 (13%) had the title report issues that were not addressed



- 28 (14%) had income calculation errors and 35 (19%) had income documentation errors
- 58 (31%) had appraisal discrepancies that raised concerns that the value was not supported

*Id.* at 3.

269. An OTS memorandum on Loan Fraud Investigation, dated June 19, 2008, noted the systematic nature of the problem: “[T]he review defines an origination culture focused more heavily on production volume rather than quality. An example of this was a finding that production personnel were allowed to participate in aspects of the income, employment, or asset verification process, a clear conflict of interest. . . . Prior OTS examinations have raised similar issues including the need to implement incentive compensation programs to place greater emphasis on loan quality.” PSI High Risk Home Loans Hearing, Senate Ex. 25, Memorandum from D. Schneider, President Home Loans, to A. Hedger, OTS Examiner and B. Franklin, OTS EIC at 1 (June 19, 2008).

270. A WaMu Significant Incident Notification, Date Incident Reported – 04/01/2008, Loss Type – Mortgage Loan, stated:

One Sales Associate admitted that during that crunch time some of the Associates would “manufacture” assets statements from previous loan docs and submit them to the Loan Fulfillment Center (“LFC”). She said the pressure was tremendous from the LFC to get them the docs since the loan had already been funded and there was pressure from the Loan Consultants to get the loans funded.

PSI High Risk Home Loans Hearing, Senate Ex. 30, “Significant Incident Notification (SIN)” at 1 (Apr. 1, 2008).

271. A New York Times article described WaMu’s underwriting practices as follows: “On a financial landscape littered with wreckage, WaMu, a Seattle-based bank that opened branches at a clip worthy of a fast-food chain, stands out as a singularly

1 brazen case of lax lending.” Peter S. Goodman & Gretchen Morgenson, *Saying Yes,*  
2 *WaMu Built Empire on Shaky Loans*, N.Y. TIMES, Dec. 27, 2008, at A1.

3 272. Sherri Zaback, a former underwriter at a WaMu branch in San Diego,  
4 California, stated that “[m]ost of the loans she . . . handled merely required borrowers  
5 to provide an address and Social Security number, and to state their income and  
6 assets.” *Id.* On one occasion, Zaback asked a loan officer for verification of a  
7 potential borrower’s assets. The officer sent her a letter from a bank showing a  
8 balance of approximately \$150,000 in the borrower’s account. Zaback called the bank  
9 to confirm and was told the balance was only \$5,000. The loan officer yelled at her,  
10 Ms. Zaback recalled. “She said, ‘We don’t call the bank to verify.’” *Id.*

11 273. Zaback also recalled that the sheer volume of loans precluded WaMu  
12 employees from adhering to underwriting standards. According to Zaback, she would  
13 typically spend a maximum of 35 minutes per file: “Just spit it out and get it done.  
14 That’s what they wanted us to do. Garbage in, and garbage out.” *Id.* Another WaMu  
15 agent in Irvine, California told the New York Times that she “coached brokers to  
16 leave parts of applications blank to avoid prompting verification if the borrower’s job  
17 or income was sketchy.” *Id.*

18 274. WaMu’s underwriting critically failed with respect to appraisals as well.  
19 An accurate appraisal of a property’s market value is as crucial to the underwriting  
20 process as the property provides collateral for the loan in case of default.

21 WaMu’s review of appraisals establishing the value of single family homes  
22 did not always follow standard residential appraisal methods because  
23 WaMu allowed a homeowner’s estimate of the value of the home to be  
24 included on the form sent from WaMu to third-party appraisers, thereby  
25 biasing the appraiser’s evaluation.

26 WaMu OIG Report at 11.

27 275. The New York Times reported, “WaMu pressured appraisers to provide  
28 inflated property values that made loans appear less risky, enabling Wall Street to

1 bundle them more easily for sale to investors.” Goodman & Morgenson, *Saying Yes,*  
2 *WaMu Built Empire on Shaky Loans* at A1. The article quoted the founder of one  
3 appraisal company that did business with WaMu until 2007 as saying, “‘It was the Wild  
4 West.’ . . . ‘If you were alive, they would give you a loan. Actually, I think if you were  
5 dead, they would still give you a loan.’” *Id.* (quoting Steven Knoble, founder Mitchell,  
6 Maxwell & Jackson).

7 276. Nor did WaMu adequately monitor non-employee third-party brokers  
8 who originated most of WaMu’s loans. As Eric Thorson explained before the PSI:

9 In addition to originating retail loans with its own employees, WaMu  
10 began originating and purchasing wholesale loans through a network of  
11 brokers and correspondents. From 2003 to 2007, wholesale loan  
12 channels represented 48 to 70 percent of WaMu’s total single family  
13 residential loan production. WaMu saw the financial incentive to use  
14 wholesale loan channels for production as significant. According to an  
15 April 2006 internal presentation to the WaMu Board, it cost WaMu about  
16 66 percent less to close a wholesale loan (\$1,809 per loan) than it did to  
17 close a retail loan (\$5,273). So while WaMu profitability increased  
18 through the use of third-party originators, it had far less oversight and  
19 control over the quality of the originations.

20 Thorson Statement at 5.

21 277. According to the WaMu OIG Report, WaMu had only 14 employees  
22 monitoring the actions of 34,000 third-party brokers. *See* WaMu OIG Report at 11.  
23 This lack of oversight led to WaMu “identif[y]ing fraud losses attributable to third-  
24 party brokers of \$51 million for subprime loans and \$27 million for prime loans” in  
25 2007. *Id.*

26 278. Federal regulators also noted that “WaMu acquired 11 institutions and  
27 merged with 2 affiliates” from 1991 to 2006, yet failed to “fully integrate . . .  
28 information technology systems, risk controls, and policies and procedures” from its

1 acquisitions and institute “a single enterprise-wide risk management system.” Thorson  
2 Statement at 5. An integrated risk management system was critically important in light  
3 of WaMu’s high-risk lending strategy. *See id.*

4 279. Based on interviews with two dozen former employees, mortgage  
5 brokers, real estate agents and appraisers, Goodman and Morgenson of the New York  
6 Times noted the “relentless pressure to churn out loans” while “disregarding  
7 borrowers’ incomes and assets” came from WaMu’s top executives. Goodman &  
8 Morgenson, *Saying Yes, WaMu Built Empire on Shaky Loans* at A1. According to Dana  
9 Zweibel, a former financial representative at a WaMu branch in Tampa, Florida, even  
10 if she doubted whether a borrower could repay the loan, she was told by WaMu  
11 management that it was not her concern: her concern was “‘just to write the loan.’”  
12 *Id.* Said Zweibel, “‘It was a disgrace’. . . . ‘We were giving loans to people that never  
13 should have had loans.’” *Id.*

14 280. In November 2008 the New York Times, quoting Keysha Cooper, a  
15 Senior Mortgage Underwriter at WaMu from 2003 to 2007, recounted “[a]t WaMu it  
16 wasn’t about the quality of the loans; it was about the numbers’. . . . ‘They didn’t care  
17 if we were giving loans to people that didn’t qualify. Instead, it was how many loans  
18 did you guys close and fund?’” Gretchen Morgenson, *Was There a Loan It Didn’t Like?*,  
19 N.Y. Times, Nov. 1, 2008. According to the article, “[i]n February 2007 . . . the  
20 pressure became intense. WaMu executives told employees they were not making  
21 enough loans and had to get their numbers up. . . .” Cooper concluded, “‘I swear 60  
22 percent of the loans I approved I was made to’ . . . ‘If I could get everyone’s name, I  
23 would write them apology letters.’” *Id.*

24 281. WaMu blatantly inflated salaries of baby sitters and mariachi singers to  
25 the six-figure range. Indeed, the only verification of the mariachi singer’s income was  
26 a photograph of the mariachi singer in his outfit included in the loan application file.  
27 The New York Times reported:  
28

1 As a supervisor at a Washington Mutual mortgage processing center,  
2 John D. Parsons was accustomed to seeing baby sitters claiming salaries  
3 worthy of college presidents, and schoolteachers with incomes rivaling  
4 stockbrokers'. He rarely questioned them. A real estate frenzy was under  
5 way and WaMu, as his bank was known, was all about saying yes.

6  
7 Yet even by WaMu's relaxed standards, one mortgage four years ago  
8 raised eyebrows. The borrower was claiming a six-figure income and an  
9 unusual profession: mariachi singer.

10  
11 Mr. Parsons could not verify the singer's income, so he had him  
12 photographed in front of his home dressed in his mariachi outfit. The  
13 photo went into a WaMu file. Approved.

14  
15 "I'd lie if I said every piece of documentation was properly signed and  
16 dated," said Mr. Parsons.

17 ...

18 At WaMu, getting the job done meant lending money to nearly anyone  
19 who asked for it — the force behind the bank's meteoric rise and its  
20 precipitous collapse this year in the biggest bank failure in American  
21 history.

22 ...

23 Interviews with two dozen former employees, mortgage brokers, real  
24 estate agents and appraisers reveal the relentless pressure to churn out  
25 loans that produced such results.

26 Goodman & Morgenson, Saying Yes, WaMu Built Empire on Shaky Loans at A1.  
27  
28

**E. Loans That Did Not Comply with the Underwriting Guidelines Were Routinely Collateral for RBS-Underwritten RMBS**

282. A February 2010 report from J.P. Morgan noted that “[t]he outstanding balance of [private-label] mortgages grew from roughly \$600 billion at the end of 2003 to \$2.2 trillion at its peak in 2007.” Gary J. Madich *et al.*, *Non-Agency Mortgage-Backed Securities: Managing Opportunities and Risks*, J.P. Morgan Asset Management at 2 (Feb. 2010), available at [http://www.jpmorganinstitutional.com/cm/BlobServer/Non-Agency\\_Mortgage-Backed\\_Securities.pdf?blobkey=id&blobwhere=1321154800608&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs&isAMIA=yes](http://www.jpmorganinstitutional.com/cm/BlobServer/Non-Agency_Mortgage-Backed_Securities.pdf?blobkey=id&blobwhere=1321154800608&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs&isAMIA=yes). While unknown to reasonable investors at that time, it now is apparent that this massive expansion in the origination of loans over a short period of time was accomplished by ignoring underwriting standards. The J.P. Morgan report also noted that home prices rose, requiring larger loans: “[private-label] mortgage providers initially met this need for larger loans while maintaining stringent qualifications. However, investment banks were willing to buy lower quality mortgages and bundle them for issuance into new and innovative forms of Asset Backed Securities (ABS) and Collateralized Debt Obligations (CDOs).” *Id.*

283. During the FCIC investigation referenced above (*supra* at Section VII.D.1), Clayton Holdings provided evidence that RBS securitized a significant number of loans that did not comply with the stated underwriting guidelines.

284. Clayton was the leading provider of due diligence services for RMBS offerings during the relevant time period. This gave Clayton “a unique inside view of the underwriting standards that originators were actually applying.” FCIC Report at 166.

285. Banks routinely hired Clayton to inspect the mortgage loans that the banks securitized into RMBS. Clayton would determine whether the loans complied with the originators’ stated underwriting guidelines, and prepare a report of its findings



1 for the bank. *See* FCIC Testimony of Vicki Beal, Senior Vice President of Clayton  
2 Holdings (Sept. 23, 2010), *available at* [http://fcic-](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Beal.pdf)  
3 [static.law.stanford.edu/cdn\\_media/fcic-testimony/2010-0923-Beal.pdf](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Beal.pdf).

4 286. From January 1, 2006 through June 30, 2007, Clayton reviewed 911,039  
5 loans. Only 54% of those met the originators' underwriting guidelines. Clayton's  
6 former President and CEO, Keith Johnson, testified that the "54% says there [was] a  
7 quality control issue in the [originators]." FCIC Report at 166; Audiotape of FCIC  
8 Interview with Keith Johnson, former President of Clayton ("Johnson FCIC  
9 Interview") (Sept. 2, 2010) ("Beal FCIC Testimony") ("Even if the guideline was bad,  
10 [the loans] didn't adhere to the guideline . . . . To me in hindsight, [the data] just said  
11 there was a . . . fundamental breakdown."), *available at*  
12 <http://fcic.law.stanford.edu/interviews/view/220>. Another 18% of the loans failed  
13 the underwriting guidelines but were deemed to have adequate compensating factors.  
14 That left a large number – 28% – that did not meet the underwriting guidelines and  
15 had no compensating factors. *See* All Clayton Trending Reports, 1st Quarter 2006 –  
16 2nd Quarter 2007, at 1 (2007), *available at* [http://fcic-](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Clayton-All-Trending-Report.pdf)  
17 [static.law.stanford.edu/cdn\\_media/fcic-testimony/2010-0923-Clayton-All-Trending-](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Clayton-All-Trending-Report.pdf)  
18 [Report.pdf](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Clayton-All-Trending-Report.pdf) ("All Clayton Trending Report").

19 287. Clayton confirmed that the RMBS sold by RBS from the beginning of  
20 2006 through the middle of 2007—which includes all but two of the Certificates listed  
21 in Tables 1 and 2 of this Complaint—contained a substantial number of loans that  
22 were not originated in conformity with underwriting guidelines. *See* All Clayton  
23 Trending Report at 6. The First Franklin 2005-FFH4 and Soundview 2005-OPT4  
24 were issued slightly earlier in November 2005.

25 288. As revealed during the FCIC investigation in 2010, Clayton routinely  
26 found large numbers of loans that were not properly originated under the applicable  
27 underwriting guidelines. Despite identifying these defectively originated loans, Clayton  
28



1 stated that they often were included into the RMBS that was being sold to investors.  
2 *See* FCIC Report at 166-67; All Clayton Trending Report at 1.

3 289. Clayton reviewed 67,257 loans for RBS. It found that 12,361 (18.4%) did  
4 not comply with the stated underwriting guidelines and did not have compensating  
5 factors. RBS waived the defects for 6,953 of the 12,361 (53.3%).

6 290. Clayton typically performed due diligence on a small sample of the loans  
7 that were being securitized into an RMBS offering – approximately 10%. FCIC *See*  
8 Beal Testimony at 2. No due diligence was performed on the remaining loans. Thus,  
9 of the small sample of loans that Clayton did review, approximately 10% did not  
10 comply with the underwriting guidelines and did not have compensating factors, but  
11 were nonetheless securitized. Extrapolating Clayton's results shows that for the  
12 remaining 90% of loans that were not reviewed, nearly 20% did not comply with the  
13 underwriting guidelines and did not have compensating factors, but were nonetheless  
14 securitized. In total, Clayton's data shows that between 15-20% of the loans RBS  
15 securitized were defective. All Clayton Trending Reports at 6.

16 **F. Additional Evidence Confirms That Defective Loans Were**  
17 **Routinely Packaged into RBS's RMBS.**

18 291. Clayton officials offered an explanation for why so many defective loans  
19 were packaged into RMBS. When asked what caused the financial crisis, one pointed  
20 to the banks belief that they had no liability for loans' compliance with underwriting  
21 guidelines: "When it came to the underwriting [guidelines] . . . and [securitizers] could  
22 perhaps distribute that risk quickly, then that wasn't as high on their priorities."  
23 Johnson FCIC Interview.

24 292. A number of loan originators had an express policy of attempting to sell  
25 loans that had already been rejected. Because only a small percentage of the pools  
26 were reviewed by a due diligence firm like Clayton (or its chief competitor, Bohan),  
27 there was a very strong likelihood that those defective loans would enter the pool on  
28 the second or third attempt. Clayton referred to this practice as the "three strikes,

1 you're out rule." Transcript, FCIC Hearing, The Financial Crisis at the Community  
2 Level—Sacramento, CA at 178 (Sept. 23, 2010) (testimony of D. Keith Johnson,  
3 former President of Clayton), *available at* [http://fcic-](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-transcript.pdf)  
4 [static.law.stanford.edu/cdn\\_media/fcic-testimony/2010-0923-transcript.pdf](http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-transcript.pdf).

5 293. The FCIC Report also concluded that banks like RBS that securitized  
6 loans were reluctant to review or reject loans in greater numbers because doing so  
7 would endanger their relationship with originators. FCIC Report at 166 ("[Clayton's  
8 former CEO] concluded that his clients often waived in loans to preserve their  
9 business relationship with the loan originator—a high number of rejections might lead  
10 the originator to sell the loans to a competitor."); PAUL MUOLO & MATTHEW PADILLA,  
11 CHAIN OF BLAME 228-29 (2010) ("There were two reasons the [Wall] Street firms  
12 reviewed only a small sample of the loans they were buying . . . . The most important  
13 reason was the relationship with the lender. "The lower the sample you requested [of  
14 the lender], the more likely it was that you'd win the bid.'").

## 15 **VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE** 16 **STATEMENTS OF MATERIAL FACT**

17 294. The Offering Documents included material untrue statements or omitted  
18 facts necessary to make the statements made, in light of the circumstances under  
19 which they were made, not misleading.

20 295. For purposes of Section 11 liability, the prospectus supplements are part  
21 of and included in the registration statements of the offerings pursuant to 17 C.F.R. §§  
22 230.158, 230.430B (2008); *see also* Securities Offering Reform, 70 Fed. Reg. 44,722-01,  
23 44,768-69 (Aug. 3, 2005).

### 24 **A. Offering Documents Misrepresented Weighted Average Loan-to-** 25 **Value Ratios**

26 296. The Offering Documents included detailed representations regarding the  
27 weighted average LTV for the pools underlying the RMBS.  
28

1           297. The LTV ratio is the ratio of a mortgage loan's original principal balance  
2 to the appraised value of the mortgaged property. For instance, if a borrower borrows  
3 \$80,000 to purchase a house estimated to be worth \$100,000, the LTV ratio is  
4 \$100,000/\$80,000 or 80%.

5           298. A "weighted average" is an average in which each value to be averaged is  
6 assigned a weight that determines the relative importance of each value to the average.  
7 A weighted average can be contrasted with a straight arithmetic mean in which each of  
8 the values to be averaged contributes equally to the average. In the context of LTVs,  
9 the higher the balance of the loan(s) secured by the property, the more "weight" it is  
10 given in relation to the average. To calculate the weighted average LTV ratio for a  
11 pool of loans, each loan's LTV ratio is multiplied by the loan balance, and the sum of  
12 those numbers is divided by the total loan balance of the pool. The weighted average  
13 LTV ratio is a factor in describing the risk of a particular RMBS.

14           299. The NCUA Board commissioned forensic reviews that calculated LTV  
15 ratios for the loans underlying the HVMLT 2006-8, HVMLT 2006-10, HVMLT 2007-  
16 4, MHL 2006-1, NHELI 2007-1, and WMLT 2006-ALT1 offerings. The forensic  
17 reviews used a retrospective automated valuation model ("AVM"). A retrospective  
18 AVM calculates the value of a property at a point in time in the past using data that  
19 was available at that time, such as comparable property values, comparable sales, and  
20 home price indices at the time of loan origination. That is, a retrospective AVM is  
21 able to calculate the value of a property in 2006 using the data that was available in  
22 2006.

23           300. The forensic review commissioned by NCUA Board calculated the value  
24 of the mortgaged properties underlying the RMBS at the time the mortgage loans were  
25 originated. For each Offering in Table 7, at least 35.3% of the loans were analyzed.

26           301. The forensic review demonstrated that, for the Offerings in Table 7, the  
27 Offering Documents materially understated the LTV ratios, and thus the risks, of the  
28 mortgage pools. The appraised values given to the mortgaged properties were

significantly higher than what the properties were actually worth at the time of origination.

302. For the Offerings in Table 7, the Offering Documents contained representations about the purported weighted average LTV ratio for the loan pools. The forensic review found that on average, the actual weighted average LTV ratio was 38.9% higher than the weighted average LTV ratio reported in the Offering Documents. *See infra* Table 7.

**Table 7**

<b>RMBS</b>	<b>Represented Weighted Average LTV Ratio</b>	<b>Actual Weighted Average LTV Ratio</b>	<b>Actual Weighted Average LTV ____% Higher than Represented</b>
HVMLT 2006-8	75.67%	127.99%	52.31%
HVMLT 2006-10	76.04%	87.56%	11.52%
HVMLT 2007-4	71.56%	119.16%	47.60%
MHL 2006-1	73.62%	120.77%	47.15%
NHELI 2007-1	76.73%	138.48%	61.75%
WMLT 2006-ALT1	76.12%	89.07%	12.95%

303. The Offering Documents for the HVMLT 2006-8, HVMLT 2006-10, HVMLT 2007-1, NHELI 2007-1, and WMLT 2006-ALT1 offerings contained aggregated loan-by-loan statistics about the weighted average CLTV ratios for the pools underlying the RMBS. The related CLTV ratio takes into account other liens on the property, such as a second mortgage. The CLTV ratio adds additional specificity to the basic LTV ratio by indicating that additional liens on the property have been considered in the calculation of the ratio. Like LTV ratio, CLTV ratio is a key statistic for investors in evaluating both the price and the risk of RMBS.

304. Because the representations in the Offering Documents regarding CLTV ratios were based on false loan-level information, the aggregated statistics were also false.

305. For the Offerings in Table 8, the forensic review shows that on average, the actual weighted average CLTV ratio was 31.7% higher than the weighted average

CLTV ratio represented in the Offering Documents. The table below shows the difference between the weighted average CLTV ratios that the Offering Documents represented for the relevant RMBS, and the actual weighted average CLTV ratios as revealed by forensic review.

**Table 8**

RMBS	Represented Weighted Average CLTV Ratio	Actual Weighted Average CLTV Ratio	Actual Weighted Average CLTV ____% Higher than Represented
HVMLT 2006-8	75.67%	128.42%	52.74%
HVMLT 2006-10	79.41%	94.16%	14.75%
HVMLT 2007-4	77.76%	120.22%	42.46%
WMLT 2006-ALT1	85.72%	102.64%	16.92%

306. The discrepancy between the reported weighted average LTV and CLTV ratios and the ratios calculated using the retroactive AVM provides additional evidence that the Originators systematically disregarded underwriting standards contrary to representations in the Offering Documents. Where the weighted average LTV and CLTV are close to or exceeds 100% for the RMBS, the borrowers collectively had virtually no equity in the mortgaged properties, increasing the risk of losses when the borrowers defaulted on the mortgaged properties. The actual weighted LTV and CLTV ratio shows that the RMBS were significantly riskier than represented in the Offering Documents.

**B. Untrue Statements in the Offering Documents About Owner-Occupancy Ratios**

307. The Offering Documents represented the percentage of properties that would be occupied by the borrower for the loans underlying each RMBS. RBS performed due diligence regarding the occupancy status of the underlying properties.

308. Representations regarding the occupancy type of a mortgaged property are material because borrowers are less likely to default on mortgages on their primary residences. As one bank explained:

1 Most home owners become anchored to their communities through the  
2 schools their children attend and the friends they make. As a result,  
3 defaulting on the mortgage backing one's primary residence can be a  
4 jarring experience, one that most people would choose to avoid. By  
5 contrast, an investment property primarily represents a stream of income  
6 or speculative opportunity, making the decision to default more one of  
7 dollars and cents than of a major life change. As a result, all else being  
8 equal, borrowers are less likely to default on a mortgage backed by their  
9 primary residence than on one backed by an investment property.

10 Barclays Capital, Barclays Loan Transition Model, at 9 (Nov. 30, 2010).

11 309. The forensic review used borrower- and property-specific public records  
12 to test loan-level occupancy data for two offerings.

13 310. First, the forensic review analyzed contemporaneous property tax records  
14 to determine whether: (1) borrowers received their property tax bill for the mortgaged  
15 property at the address of the mortgaged property; and (2) borrowers took a property  
16 tax exemption on the mortgaged property that is only available for owner-occupied  
17 properties. Borrowers are likely to have a tax bill sent to their primary residence to  
18 ensure their ability to make timely payment. However, if borrowers have tax records  
19 sent to a different address, then they probably do not actually reside at the mortgaged  
20 property. And if borrowers decline to take certain tax exemptions dependent on the  
21 borrowers residing at their mortgaged properties, then the borrowers probably do not  
22 reside at those properties.

23 311. Second, the forensic review analyzed public records to determine  
24 whether borrowers owned any other properties during the same time period in which  
25 they owned the securitized property. The forensic review then examined whether the  
26 borrowers consistently identified the securitized property as their mailing address for  
27 property tax bills on each concurrently owned property. Inconsistencies in tax bill  
28



1 mailing addresses for concurrently-owned properties strongly suggest that the  
2 securitized property was not, in fact, owner-occupied.

3 312. Third, the forensic review conducted a review of lien records on  
4 concurrently-owned properties to determine whether borrowers indicated that any  
5 property other than the securitized property was owner-occupied. This test examines  
6 all liens originated after the securitized mortgage and compares owner-occupancy  
7 representations with those in the loan tapes. If liens on concurrently-owned properties  
8 indicate that those properties are owner-occupied, then the borrower probably does  
9 not reside at the mortgaged property.

10 313. Fourth, the forensic review examined the mailing addresses identified for  
11 liens on concurrently-owned properties to determine whether the address of the  
12 securitized property was listed as the mailing address for bills and other  
13 correspondence between borrowers and the lienholders. If the securitized property  
14 address is not identified, then the securitized property is probably not owner-occupied.

15 314. Finally, the forensic review reviewed credit records to help determine  
16 whether a given borrower occupied the mortgaged property. Specifically, the forensic  
17 review investigated whether creditors were reporting the securitized property's address  
18 as the borrower's mailing address six months after the origination of the loan. Within  
19 six months of closing on a mortgage, one would expect borrowers to have changed  
20 their billing address with each of their creditors. If a borrower was telling creditors to  
21 send bills to another address even six months after buying the property, it is likely the  
22 borrower was living at a different location.

23 315. In assessing the accuracy of the Offering Documents' representations  
24 about owner-occupancy, the forensic review considered mortgages that failed multiple  
25 owner-occupancy tests to not have actually have been backed by owner-occupied  
26 properties. Even with this high threshold, the forensic review revealed systemic  
27 overstatements of owner-occupancy rates within each of the RMBS at issue.  
28



316. For each Offering in Table 9, at least 71% of the loans were analyzed. The forensic review's analysis demonstrates that, for the Offerings in Table 9, the Offering Documents drastically overstated the percentage of owner-occupied properties in the collateral pools. *See infra* Table 9.

**Table 9**

RMBS	Represented Percentage of Owner-Occupied Properties	Actual Percentage of Owner-Occupied Properties	Percentage Overstatement
HVMLT 2006-10	72.1%	61.5%	10.6%
WMLT 2006-ALT1	67.8%	56.3%	11.5%

**C. Untrue Statements Concerning Compliance with Underwriting Guidelines**

317. Statements in the Offering Documents concerning the following subjects were material and untrue at the time they were made: (1) adherence to stated underwriting guidelines; (2) the "loan-to-value" ratio for the mortgaged property and the accuracy of appraisals; and (3) the existence of credit enhancement to minimize the risk of loss.

318. The following chart, Table 10, lists which originators contributed loans to each RMBS. Under SEC's Regulation AB, the Offering Documents must disclose the originators that contributed more than 10% of the loans underlying the RMBS, and the Offering Documents must include underwriting guidelines for the originators that contributed more than 20% of the loans underlying the RMBS. *See* 17 C.F.R. § 229.1110 (2005).

**Table 10**

CUSIP(S)	ISSUING ENTITY	TRANCHE	ORIGINATOR(S)
65538DAB1	NAA 2006-AR4	A1B	FNBN (24.81%); Silver State (13.69%)

1	<b>CUSIP(S)</b>	<b>ISSUING ENTITY</b>	<b>TRANCHE</b>	<b>ORIGINATOR(S)</b>
2	026935AD8	AHMA 2007-3	1-2A2	American Home (100%)
3				
4	32027NXE6	FFMLT 2005- FFH4	M-2	First Franklin (100%)
5				
6	41161GAE3	HVMLT 2006-8	2A-1C	<b>Group 2:</b> BankUnited (23.31%); First Federal Bank of California (15.21%); Paul Financial (16.12%); Residential Mortgage Capital (10.87%); WaMu (12.09%)
7				
8	41161XAM8			
9	41161XAN6	HVMLT 2006-9	2A-1C1 2A-1B2	Countrywide (100%)
10				
11	41162CAD3	HVMLT 2006- 10	2A-1B	<b>Group 2:</b> Paul Financial (17.26%); BankUnited (16.85%); Residential Mortgage Capital (15.92%); Loan Center of California (12.78%); NL dba Residential Pacific Mortg. (10.89%); First Federal Bank of California (10.77%)
12				
13	41162GAB8	HVMLT 2006- 11	A-1B	Countrywide (100%)
14				
15	41162DAG4	HVMLT 2006- 12	2A-2B 2A-2C	Countrywide (100%)
16	41162DAH2			
17	41162NAD9	HVMLT 2006- 14	2A-1B 2A-2C	IndyMac (64.12%); American Home (12.66%)
18	41162NAH0			
19	41164MAF4	HVMLT 2007-1	B1 2A-1C2	Countrywide (100%)
20	41164MAP2			
21	41164LAC3	HVMLT 2007-2	2A-1B	American Home (22.52%); Paul Financial (21.18%); Kay-Co dba Pro30 Funding (15.91%); Residential Funding Co. (10.28%)
22				
23				
24				
25				
26				
27				
28				

CUSIP(S)	ISSUING ENTITY	TRANCHE	ORIGINATOR(S)
41164YAD3	HVMLT 2007-4	2A-3	Paul Financial (25.83%); Plaza Home Mortgage (15.92%); First Federal Bank of California (14.90%)
41165AAC6 41165AAD4	HVMLT 2007-5	A1B A1C	American Home (100%)
45667SAN7 45667SAP2	INDX 2006- AR35	2-A-3A 2-A-3B	IndyMac (100%)
55028CAA3 55028CAB1 55028CAE5	LUM 2007-1	I-A-1 I-A-2 2-A-3	<b>Group 1:</b> WaMu (88.16%); Metrocities (11.84%)  <b>Group 2:</b> IndyMac (100%)
61915RCL8	MHL 2006-1	2-A1C	MortgageIT (100%)
65537KAB6 65537KAC4	NHELI 2007-1	II-2A1A II-2A1B	<b>Group 2:</b> Silver State (31.67%)
83611MJM1	SVHE 2005- OPT4	M-2	Option One (100%)
92978GAC3	WMLT 2006- ALT1	A3	National City (65.93%); Accredited Home Lenders (18.88%); Wachovia Mortgage Corp. (12.44%); AmNet (2.75%)

319. Listed below are examples of material untrue statements and/or omissions of fact from the RMBS listed above.

**D. Untrue Statements Concerning Adherence to Stated Underwriting Guidelines**

320. The NHELI 2007-1 Prospectus Supplement represented:

1 FNBN's underwriting guidelines are applied in a standard procedure that  
2 is intended to comply with applicable federal and state laws and  
3 regulations. However, the application of FNBN's underwriting  
4 guidelines does not imply that each specific criterion was satisfied  
5 individually. FNBN will have considered a mortgage loan to be  
6 originated in accordance with a given set of underwriting guidelines if,  
7 based on an overall qualitative evaluation, in FNBN's discretion such  
8 mortgage loan is in substantial compliance with such underwriting  
9 guidelines or if the borrower can document compensating factors. A  
10 mortgage loan may be considered to comply with a set of underwriting  
11 guidelines, even if one or more specific criteria included in such  
12 underwriting guidelines were not satisfied, if other factors compensated  
13 for the criteria that were not satisfied or the mortgage loan is considered  
14 to be in substantial compliance with the underwriting guidelines.

15 NHELI 2007-1 Prospectus Supplement at S-105-106; NAA 2006-AR4 Prospectus  
16 Supplement at S-49-50; *see* NAA 2006-AR4 Free Writing Prospectus, Nov. 17, 2006, at  
17 the "Underwriting Standards of FNBN" section.

18 321. The NHELI 2007-1 Prospectus Supplement represented:

19 All of the Mortgage Loans have been purchased by the sponsor from  
20 various banks, savings and loan associations, mortgage bankers and other  
21 mortgage loan originators and purchasers of mortgage loans in the  
22 secondary market, and were originated generally in accordance with the  
23 underwriting criteria described in this section.

24 NHELI 2007-1 Prospectus Supplement at S-108; NAA 2006-AR4 Free Writing  
25 Prospectus, Nov. 17, 2006, at the "Underwriting Standards of the Sponsor" section.

26 322. The NHELI 2007-1 Prospectus Supplement represented:  
27  
28

1 In addition, FNBN may make certain exceptions to the underwriting  
2 guidelines described herein if, in FNBN's discretion, compensating  
3 factors are demonstrated by a prospective borrower.

4 NHELI 2007-1 Prospectus Supplement at S-104; NAA 2006-AR4 Prospectus  
5 Supplement at S-48.

6 323. The NHELI 2007-1 Prospectus Supplement represented the sponsor,  
7 Nomura Credit & Capital, Inc.'s underwriting standards as follows:

8 In addition, certain exceptions to the underwriting standards described in  
9 this prospectus supplement are made in the event that compensating  
10 factors are demonstrated by a prospective borrower.

11 NHELI 2007-1 Prospectus Supplement at S-109.

12 324. The NHELI 2007-1 Prospectus Supplement represented:

13 FNBN's underwriting guidelines are primarily intended to evaluate the  
14 prospective borrower's credit standing and ability to repay the loan, as  
15 well as the value and adequacy of the proposed Mortgaged Property as  
16 collateral. A prospective borrower applying for a mortgage loan is  
17 required to complete an application, which elicits pertinent information  
18 about the prospective borrower including, depending upon the loan  
19 program, the prospective borrower's financial condition (assets, liabilities,  
20 income and expenses), the property being financed and the type of loan  
21 desired.

22 NHELI 2007-1 Prospectus Supplement at S-105; NAA 2006-AR4 Prospectus  
23 Supplement at S-49; NAA 2006-AR4 Free Writing Prospectus, Nov. 17, 2006, at the  
24 "Underwriting Standards of FNBN" section.

25 325. The NHELI 2007-1 Prospectus Supplement represented:

26 Based on the data provided in the application and certain verifications (if  
27 required), a determination will have been made that the borrower's  
28 monthly income (if required to be stated or verified) should be sufficient

1 to enable the borrower to meet its monthly obligations on the mortgage  
2 loan and other expenses related to the Mortgaged Property (such as  
3 property taxes, standard hazard insurance and other fixed obligations  
4 other than housing expenses). Generally, scheduled payments on a  
5 mortgage loan during the first year of its term plus taxes and insurance  
6 and other fixed obligations equal no more than a specified percentage of  
7 the prospective borrower's gross income. The percentage applied varies  
8 on a case-by-case basis depending on a number of underwriting criteria  
9 including, but not limited to, the loan-to-value ratio of the mortgage loan  
10 or the amount of liquid assets available to the borrower after origination.

11 NHELI 2007-1 Prospectus Supplement at S-105; NAA 2006-AR4 Prospectus  
12 Supplement at S-49.

13 326. The NHELI 2007-1 Prospectus Supplement stated:

14 Silver State Mortgage's underwriting guidelines are primarily intended to  
15 evaluate the prospective borrower's credit standing and ability to repay  
16 the loan, as well as the value and adequacy of the proposed Mortgaged  
17 Property as collateral. A prospective borrower applying for a mortgage  
18 loan is required to complete an application which elicits pertinent  
19 information about the prospective borrower including, depending upon  
20 the loan program, the prospective borrower's financial condition (assets,  
21 liabilities, income and expenses), the property being financed and the  
22 type of loan desired.

23 Nomura HELT 2007-1 Prospectus Supplement at S-107.

24 327. The NHELI 2007-1 Prospectus Supplement represented:

25 Based on the data provided in the application and certain verifications (if  
26 required), a determination will have been made that the borrower's  
27 monthly income (if required to be stated or verified) should be sufficient  
28 to enable the borrower to meet its monthly obligations on the mortgage

1 loan and other expenses related to the Mortgaged Property (such as  
2 property taxes, standard hazard insurance and other fixed obligations  
3 other than housing expenses).

4 Nomura HELT 2007-1 Prospectus Supplement at S-108.

5 328. The NHELI 2007-1 Prospectus Supplement represented:

6 Generally, each borrower will have been required to complete an  
7 application designed to provide to the original lender pertinent credit  
8 information concerning the borrower. As part of the description of the  
9 borrower's financial condition, the borrower generally will have furnished  
10 certain information with respect to its assets, liabilities, income (except as  
11 described below), credit history, employment history and personal  
12 information, and furnished an authorization to apply for a credit report  
13 which summarizes the borrower's credit history with local merchants and  
14 lenders and any record of bankruptcy. The borrower may also have been  
15 required to authorize verifications of deposits at financial institutions  
16 where the borrower had demand or savings accounts.

17 NHELI 2007-1 Prospectus Supplement at S-109.

18 329. The AHMA 2007-3 Prospectus Supplement represented:

19 The Originator's underwriting philosophy is to weigh all risk factors  
20 inherent in the loan file, giving consideration to the individual  
21 transaction, borrower profile, the level of documentation provided and  
22 the property used to collateralize the debt. Because each loan is different,  
23 the Originator expects and encourages underwriters to use professional  
24 judgment based on their experience in making a lending decision.

25 AHMA 2007-3 Prospectus Supplement at S-51-52.

26 330. The AHMA 2007-3 Prospectus Supplement represented:

27 The Originator realizes that there may be some acceptable quality loans  
28 that fall outside published guidelines and encourages "common sense"



1 underwriting. Because a multitude of factors are involved in a loan  
2 transaction, no set of guidelines can contemplate every potential  
3 situation. Therefore, each case is weighed individually on its own merits  
4 and exceptions to the Originator's underwriting guidelines are allowed if  
5 sufficient compensating factors exist to offset any additional risk due to  
6 the exception.

7 AHMA 2007-3 Prospectus Supplement at S-53.

8 331. The AHMA 2007-3 Prospectus Supplement represented:

9 In order to determine if a borrower qualifies for a non-conforming loan,  
10 the loans have been either approved by Fannie Mae's Desktop  
11 Underwriter or Freddie Mac's Loan Prospector automated underwriting  
12 systems or they have been manually underwritten by the Originator  
13 underwriters. The Originator's Alt-A loan products have been approved  
14 manually by contract underwriters provided by certain mortgage  
15 insurance companies. American Home Solutions products must receive  
16 an approval from the Assetwise automated underwriting system. For  
17 manually underwritten loans, the underwriter must ensure that the  
18 borrower's income will support the total housing expense on an ongoing  
19 basis. Underwriters may give consideration to borrowers who have  
20 demonstrated an ability to carry a similar or greater housing expense for  
21 an extended period. In addition to the monthly expense the underwriter  
22 must evaluate the borrower's ability to manage all recurring payments on  
23 all debts, including the monthly housing expense. When evaluating the  
24 ratio of all monthly debt payments to the borrower's monthly income  
25 (debt-to-income ratio), the underwriter should be aware of the degree  
26 and frequency of credit usage and its impact on the borrower's ability to  
27 repay the loan. For example, borrowers who lower their total obligations  
28 should receive favorable consideration and borrowers with a history of

1 heavy usage and a pattern of slow or late payments should receive less  
2 flexibility.

3 AHMA 2007-3 Prospectus Supplement at S-52-53.

4 332. The AHMA 2007-3 Prospectus Supplement represented:

5 The Originator obtains a credit report that summarizes each borrower's  
6 credit history. The credit report contains information from the three  
7 major credit repositories, Equifax, Experian and TransUnion. These  
8 companies have developed scoring models to identify the comparative  
9 risk of delinquency among applicants based on characteristics within the  
10 applicant's credit report. A borrower's credit score represents a  
11 comprehensive view of the borrower's credit history risk factors and is  
12 indicative of whether a borrower is likely to default on a loan. Some of  
13 the factors used to calculate credit scores are a borrower's incidents of  
14 previous delinquency, the number of credit accounts a borrower has, the  
15 amount of available credit that a borrower has utilized, the source of a  
16 borrower's existing credit, and recent attempts by a borrower to obtain  
17 additional credit. Applicants who have higher credit scores will, as a  
18 group, have fewer defaults than those who have lower credit scores. The  
19 minimum credit score allowed by the Originator non-conforming loan  
20 guidelines for these loans is 620 and the average is typically over 700.  
21 For American Home Alt-A products, the minimum credit score is  
22 generally 580. If the borrowers do not have a credit score they must have  
23 an alternative credit history showing at least three trade lines with no  
24 payments over 60 days past due in the last 12 months.

25  
26 In addition to reviewing the borrower's credit history and credit score,  
27 the Originator underwriters closely review the borrower's housing  
28 payment history. In general, for non-conforming loans the borrower

1 should not have made any mortgage payments over thirty days after the  
2 due date for the most recent twelve months. In general, for Alt-A loans  
3 the borrower may have no more than one payment that was made over  
4 thirty days after the due date for the most recent twelve months.

5 AHMA 2007-3 Prospectus Supplement at S-52.

6 333. The AHMA 2007-3 Prospectus Supplement represented:  
7 The Originator underwrites a borrower's creditworthiness based solely on  
8 information that the Originator believes is indicative of the applicant's  
9 willingness and ability to pay the debt they would be incurring.

10 AHMA 2007-3 Prospectus Supplement at S-52.

11 334. The FFMLT 2005-FFH4 Prospectus Supplement represented:  
12 All of the Mortgage Loans were originated or acquired by the Originator,  
13 generally in accordance with the underwriting criteria described herein.

14 . . .

15 The Originator's underwriting standards are primarily intended to assess  
16 the ability and willingness of the borrower to repay the debt and to  
17 evaluate the adequacy of the mortgaged property as collateral for the  
18 mortgage loan. . . . The Originator considers, among other things, a  
19 mortgagor's credit history, repayment ability and debt service-to-income  
20 ratio ("Debt Ratio"), as well as the value, type and use of the mortgage  
21 property.

22 FFMLT 2005-FFH4 Prospectus Supplement at S-54.

23 335. The FFMLT 2005-FFH4 Prospectus Supplement represented:  
24 All of the Mortgage Loans were underwritten by the Originator's  
25 underwriters having the appropriate signature authority. Each  
26 underwriter is granted a level of authority commensurate with their  
27 proven judgment, maturity and credit skills. On a case by case basis, the  
28 Originator may determine that, based upon compensating factors, a

prospective mortgagor not strictly qualifying under the underwriting risk category guidelines described below warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low Debt Ratio, substantial liquid assets, good credit history, stable employment and time in residence at the applicant's current address. It is expected that a substantial portion of the Mortgage Loans may represent such underwriting exceptions.

FFMLT 2005-FFH4 Prospectus Supplement at S-56.

336. The HVMLT 2007-5 Prospectus Supplement represented:

The mortgage loans have been purchased or originated, underwritten and documented in accordance with the guidelines of Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture Guaranteed Rural Housing Program (GRH), Ginnie Mae, the underwriting guidelines of specific private investors, and the non-conforming or Alt-A underwriting guidelines established by American Home.

HVMLT 2007-5 Prospectus Supplement at S-29; HarborView 2007-2 Prospectus Supplement at S-33.

337. The HVMLT 2007-5 Prospectus Supplement represented:

American Home's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. These standards are applied in accordance with applicable federal and state laws and regulations. Exceptions to the underwriting standards may be permitted where compensating factors are present. . . . Because each loan is different,

1 American Home expects and encourages underwriters to use professional  
2 judgment based on their experience in making a lending decision.  
3 HVMLT 2007-5 Prospectus Supplement at S-29-30; HVMLT 2007-2 Prospectus  
4 Supplement at S-33.

5 338. The HVMLT 2007-5 Prospectus Supplement represented:  
6 American Home underwrites a borrower's creditworthiness based solely  
7 on information that American Home believes is indicative of the  
8 applicant's willingness and ability to pay the debt they would be incurring.  
9 HVMLT 2007-5 Prospectus Supplement at S-30; HVMLT 2007-2 Prospectus  
10 Supplement at S-33.

11 339. The HVMLT 2007-4 Prospectus Supplement represented the following  
12 with respect to originator Paul Financial:

13 An applicant's creditworthiness is determined based on the borrower's  
14 ability and willingness to repay the loan. The loan decision is based upon  
15 the applicant's financial information, employment and income stability,  
16 credit history and collateral value.  
17 HVMLT 2007-4 Prospectus Supplement at S-34; HVMLT 2007-2 Prospectus  
18 Supplement at S-35.

19 340. The HVMLT 2007-5 Prospectus Supplement represented:  
20 American Home realizes that there may be some acceptable quality loans  
21 that fall outside published guidelines and encourages "common sense"  
22 underwriting. Because a multitude of factors are involved in a loan  
23 transaction, no set of guidelines can contemplate every potential  
24 situation. Therefore, each case is weighed individually on its own merits  
25 and exceptions to American Home's underwriting guidelines are allowed  
26 if sufficient compensating factors exist to offset any additional risk due to  
27 the exception.  
28

1 HVMLT 2007-5 Prospectus Supplement at S-31; HVMLT 2007-2 Prospectus  
2 Supplement at S-35.

3 341. The HVMLT 2007-4 Prospectus Supplement stated:

4 Paul Financial's underwriting guidelines are applied to evaluate the  
5 applicant, the property and the applicant's income, employment and  
6 credit history in the context of the loan program and documentation  
7 requirements. These are guidelines only and each loan is evaluated based  
8 upon its own merits. Exceptions to the guidelines may be acceptable if  
9 there are compensating factors.

10 HVMLT 2007-4 Prospectus Supplement at S-34; HVMLT 2007-2 Prospectus  
11 Supplement at S-35.

12 342. The HVMLT 2007-4 Prospectus Supplement represented:

13 Paul Financial's underwriting standards are applied by or on behalf of  
14 Paul Financial to evaluate the prospective borrower's credit standing and  
15 repayment ability and the value and adequacy of the mortgaged property  
16 as collateral. Except under the No Income programs, a prospective  
17 borrower must generally demonstrate that the ratio of the borrower's  
18 monthly housing expenses (including interest on the proposed mortgage  
19 loan and, as applicable, the related monthly portion of property taxes,  
20 hazard insurance and mortgage insurance) to the borrower's monthly  
21 gross income and the ratio of total monthly debt to the monthly gross  
22 income (the "debt-to-income" ratios) are within acceptable limits.

23 HVMLT 2007-4 Prospectus Supplement at S-35; HVMLT 2007-2 Prospectus  
24 Supplement at S-36.

25 343. The HVMLT 2007-1 Prospectus Supplement represented:

26 Under its Standard Underwriting Guidelines, Countrywide Home Loans  
27 generally permits a debt-to-income ratio based on the borrower's  
28

1 monthly housing expenses of up to 33% and a debt-to-income ratio  
2 based on the borrower's total monthly debt of up to 38%.  
3 HVMLT 2007-1 Prospectus Supplement at S-32; HVMLT 2006-12 Prospectus  
4 Supplement at S-70; HVMLT 2006-11 Prospectus Supplement at S-36; HVMLT 2006-  
5 9 Prospectus Supplement at S-65.

6 344. The HVMLT 2007-1 Prospectus Supplement represented:  
7 As part of its evaluation of potential borrowers, Countrywide Home  
8 Loans generally requires a description of income. If required by its  
9 underwriting guidelines, Countrywide Home Loans obtains employment  
10 verification providing current and historical income information and/or a  
11 telephonic employment confirmation. Such employment verification  
12 may be obtained, either through analysis of the prospective borrower's  
13 recent pay stub and/or W-2 forms for the most recent two years, relevant  
14 portions of the most recent two years' tax returns, or from the  
15 prospective borrower's employer, wherein the employer reports the  
16 length of employment and current salary with that organization. Self-  
17 employed prospective borrowers generally are required to submit relevant  
18 portions of their federal tax returns for the past two years.  
19 HVMLT 2007-1 Prospectus Supplement at S-29-30; HVMLT 2006-12 Prospectus  
20 Supplement at S-68; HVMLT 2006-11 Prospectus Supplement at S-34; HVMLT 2006-  
21 9 Prospectus Supplement at S-63.

22 345. The HVMLT 2006-10 Prospectus Supplement represented:  
23 In determining whether a prospective borrower has sufficient monthly  
24 income available to meet the monthly housing expenses and other  
25 financial obligations on the proposed mortgage loan, BankUnited  
26 generally considers, when required by the applicable documentation type,  
27 the ratio of such amounts to the proposed borrower's acceptable stable  
28 monthly gross income. Such ratio varies depending on a number of



1 underwriting criteria, including loan-to-value ratios, and is determined on  
2 a loan-by-loan basis. Under its One Month MTA Guidelines,  
3 BankUnited generally permits a debt-to-income ratio based on the  
4 borrower's total monthly debt of 42%. Higher debt-to-income ratios  
5 may also be acceptable with evidence of specific compensating factors.

6 HVMLT 2006-10 Prospectus Supplement at S-64; HVMLT 2006-14 Prospectus  
7 Supplement at S-66.

8 346. The HVMLT 2006-10 Prospectus Supplement represented: "Such  
9 underwriting standards are applied to evaluate the prospective borrower's credit  
10 standing and repayment ability and the value and adequacy of the mortgaged property  
11 as collateral. Exceptions to the underwriting standards are permitted where  
12 compensating factors are present." HarborView 2006-10 Prospectus Supplement at S-  
13 63 (representing BankUnited's underwriting guidelines); HarborView 2006-14  
14 Prospectus Supplement at S-65.

15 347. The HVMLT 2006-8 Prospectus Supplement stated: "BankUnited has  
16 represented to the depositor that the mortgage loans were originated generally in  
17 accordance with such [underwriting] policies." HarborView 2006-8 Prospectus  
18 Supplement at S-60.

19 348. The HVMLT 2006-8 Prospectus Supplement represented:  
20 Such underwriting standards are applied to evaluate the prospective  
21 borrower's credit standing and repayment ability and the value and  
22 adequacy of the mortgaged property as collateral. Exceptions to the  
23 underwriting standards are permitted where compensating factors are  
24 present.

25  
26 Generally, each borrower will have been required to complete an  
27 application designed to provide pertinent credit information concerning  
28 the borrower. The borrower will have given information with respect to

1 its assets, liabilities, income (except as described below), credit history,  
2 employment history and personal information, and will have furnished  
3 the lender with authorization to obtain a credit report that summarizes  
4 the borrower's credit history.

5 HVMLT 2006-8 Prospectus Supplement at S-60.

6 349. The HVMLT 2006-8 Prospectus Supplement represented:

7 In determining whether a prospective borrower has sufficient monthly  
8 income available (i) to meet the borrower's monthly obligation on their  
9 proposed mortgage loan and (ii) to meet the monthly housing expenses  
10 and other financial obligations on the proposed mortgage loan,  
11 BankUnited generally considers, when required by the applicable  
12 documentation type, the ratio of such amounts to the proposed  
13 borrower's acceptable stable monthly gross income. Such ratios vary  
14 depending on a number underwriting criteria, including loan-to-value  
15 ratios, and are determined on a loan-by-loan basis.

16 HVMLT 2006-8 Prospectus Supplement at S-60-61.

17 350. The INDX 2006-AR35 Prospectus Supplement represented:

18 Mortgage loans that are acquired by IndyMac Bank are underwritten by  
19 IndyMac Bank according to IndyMac Bank's underwriting guidelines,  
20 which also accept mortgage loans meeting Fannie Mae or Freddie Mac  
21 guidelines regardless of whether such mortgage loans would otherwise  
22 meet IndyMac Bank's guidelines, or pursuant to an exception to those  
23 guidelines based on IndyMac Bank's procedures for approving such  
24 exceptions. Conventional mortgage loans are loans that are not insured  
25 by the FHA or partially guaranteed by the VA. Conforming mortgage  
26 loans are loans that qualify for sale to Fannie Mae and Freddie Mac,  
27 whereas non-conforming mortgage loans are loans that do not so qualify.  
28 Non-conforming mortgage loans originated or purchased by IndyMac

1 Bank pursuant to its underwriting programs typically differ from  
2 conforming loans primarily with respect to loan-to-value ratios, borrower  
3 income, required documentation, interest rates, borrower occupancy of  
4 the mortgaged property and/or property types. To the extent that these  
5 programs reflect underwriting standards different from those of Fannie  
6 Mae and Freddie Mac, the performance of loans made pursuant to these  
7 different underwriting standards may reflect higher delinquency rates  
8 and/or credit losses.

9 INDX 2006-AR35 Prospectus Supplement at S-67; *see* INDX 2006-AR35 Registration  
10 Statement, Feb. 24, 2006, at S-28.

11 351. The INDX 2006-AR35 Prospectus Supplement represented:  
12 IndyMac Bank has two principal underwriting methods designed to be  
13 responsive to the needs of its mortgage loan customers: traditional  
14 underwriting and e-MITS (Electronic Mortgage Information and  
15 Transaction System) underwriting. E-MITS is an automated, internet-  
16 based underwriting and risk-based pricing system. IndyMac Bank  
17 believes that e-MITS generally enables it to estimate expected credit loss,  
18 interest rate risk and prepayment risk more objectively than traditional  
19 underwriting and also provides consistent underwriting decisions.  
20 IndyMac Bank has procedures to override an e-MITS decision to allow  
21 for compensating factors.

22 INDX 2006-AR35 Prospectus Supplement at S-67; *see* INDX 2006-AR35 Registration  
23 Statement, Feb. 24, 2006, at S-28.

24 352. The INDX 2006-AR35 Prospectus Supplement represented:  
25 Underwriting procedures vary by channel of origination. Generally,  
26 mortgage loans originated through the mortgage professional channel will  
27 be submitted to e-MITS for assessment and subjected to a full credit  
28 review and analysis. Mortgage loans that do not meet IndyMac Bank's

1 guidelines may be manually re-underwritten and approved under an  
2 exception to those underwriting guidelines. Mortgage loans originated  
3 through the consumer direct channel are subjected to essentially the same  
4 procedures, modified as necessary to reflect the fact that no third-party  
5 contributes to the preparation of the credit file.

6 INDX 2006-AR35 Prospectus Supplement at S-69; *see* INDX 2006-AR35 Registration  
7 Statement, Feb. 24, 2006, at S-30.

8 353. The INDX 2006-AR35 Prospectus Supplement represented:  
9 Exceptions to underwriting standards are permitted in situations in which  
10 compensating factors exist. Examples of these factors are significant  
11 financial reserves, a low loan-to-value ratio, significant decrease in the  
12 borrower's monthly payment and long-term employment with the same  
13 employer.

14 INDX 2006-AR35 Prospectus Supplement at S-69; INDX 2006-AR35 Registration  
15 Statement, Feb. 24, 2006, at S-31.

16 354. The INDX 2006-AR35 Prospectus Supplement represented:  
17 Additionally, maximum total monthly debt payments-to-income ratios  
18 and cash-out limits may be applied. Other factors may be considered in  
19 determining loan eligibility such as a borrower's residency and  
20 immigration status, whether a non-occupying borrower will be included  
21 for qualification purposes, sales or financing concessions included in any  
22 purchase contract, the acquisition cost of the property in the case of a  
23 refinance transaction, the number of properties owned by the borrower,  
24 the type and amount of any subordinate mortgage, the amount of any  
25 increase in the borrower's monthly mortgage payment compared to  
26 previous mortgage or rent payments and the amount of disposable  
27 monthly income after payment of all monthly expenses.  
28

1 INDX 2006-AR35 Prospectus Supplement at S-68; INDX 2006-AR35 Registration  
2 Statement, Feb. 24, 2006, at S-30.

3 355. The INDX 2006-AR35 Prospectus Supplement stated:

4 IndyMac Bank's underwriting criteria for traditionally underwritten  
5 mortgage loans includes an analysis of the borrower's credit history,  
6 ability to repay the mortgage loan and the adequacy of the mortgaged  
7 property as collateral. Traditional underwriting decisions are made by  
8 individuals authorized to consider compensating factors that would allow  
9 mortgage loans not otherwise meeting IndyMac Bank's guidelines.

10 INDX 2006-AR35 Prospectus Supplement at S-67; *see* INDX 2006-AR35 Registration  
11 Statement, Feb. 24, 2006, at S-28.

12 356. The LUM 2007-1 Prospectus Supplement represented:

13 The mortgage loans have been originated generally in accordance with  
14 the following underwriting standards established by WMMSC or  
15 underwriting guidelines established by WaMu.

16 LUM 2007-1 Prospectus Supplement at S-32.

17 357. The LUM 2007-1 Prospectus Supplement represented:

18 Each mortgage loan has been underwritten under one of the following  
19 documentation programs. Under a full/alternative documentation  
20 program, a borrower's employment and income are verified. The  
21 employment and income as stated in the prospective borrower's loan  
22 application are verified either directly with the borrower's stated  
23 employer(s) or through receipt of alternative documentation such as the  
24 borrower's recent pay stub(s) and/or W-2 form(s) reflecting a minimum  
25 of 12 months of employment and income or, in the case of self-  
26 employed borrowers or borrowers who derive a substantial portion of  
27 their income from commissions, receipt of the borrower's personal (and,  
28 if applicable, business) tax returns. For self-employed borrowers, profit

1 and loss statements may also be required. Generally, under a  
2 full/alternative documentation program, the borrower's stated assets are  
3 also verified either directly with the stated financial institution holding the  
4 stated asset or through receipt of alternative documentation such as the  
5 borrower's recent bank and/or brokerage statement(s). In addition, the  
6 borrower's employment may be verified with the employer by telephone  
7 or by other independent means.

8 LUM 2007-1 Prospectus Supplement at S-33-34.

9 358. The LUM 2007-1 Prospectus Supplement represented: "Mortgage loans  
10 that are acquired by IndyMac Bank are underwritten by IndyMac Bank according to  
11 IndyMac Bank's underwriting guidelines..." LUM 2007-1 Prospectus Supplement at  
12 S-36.

13 359. The LUM 2007-1 Prospectus Supplement represented:  
14 Exceptions to underwriting standards described above may be made on a  
15 case-by-case basis if compensating factors are present. In those cases,  
16 the basis for the exception is documented. Compensating factors may  
17 include, but are not limited to, low loan-to-value ratio, low debt-to-  
18 income ratio, good credit standing, the availability of other liquid assets,  
19 stable employment and time in residence at the prospective borrower's  
20 current address.

21 LUM 2007-1 Prospectus Supplement at S-34.

22 360. The LUM 2007-1 Prospectus Supplement represented:  
23 Exceptions to underwriting standards are permitted in situations in which  
24 compensating factors exist. Examples of these factors are significant  
25 financial reserves, a low loan-to-value ratio, significant decrease in the  
26 borrower's monthly payment and long-term employment with the same  
27 employer.

28 LUM 2007-1 Prospectus Supplement at S-39.



1 361. The LUM 2007-1 Prospectus Supplement represented:

2 Under all documentation programs other than the no ratio programs and  
3 the no documentation programs, in evaluating a prospective borrower's  
4 ability to repay a mortgage loan, the loan underwriter considers the ratio  
5 of the borrower's mortgage payments, real property taxes and other  
6 monthly housing expenses to the borrower's gross income (referred to as  
7 the "housing-to-income ratio" or "front end ratio"), and the ratio of the  
8 borrower's total monthly debt (including certain non-housing expenses)  
9 to the borrower's gross income (referred to as the "debt-to-income ratio"  
10 or "back end ratio"). The maximum acceptable ratios may vary  
11 depending on other loan factors, such as loan amount and loan purpose,  
12 loan-to-value ratio, credit score and the availability of other liquid assets.  
13 Exceptions to the ratio guidelines may be made when compensating  
14 factors are present.

15 LUM 2007-1 Prospectus Supplement at S-33.

16 362. The LUM 2007-1 Prospectus Supplement represented:

17 Additionally, maximum total monthly debt payments-to-income ratios  
18 and cash-out limits may be applied. Other factors may be considered in  
19 determining loan eligibility such as a borrower's residency and  
20 immigration status, whether a non-occupying borrower will be included  
21 for qualification purposes, sales or financing concessions included in any  
22 purchase contract, the acquisition cost of the property in the case of a  
23 refinance transaction, the number of properties owned by the borrower,  
24 the type and amount of any subordinate mortgage the amount of any  
25 increase in the borrower's monthly mortgage payment compared to  
26 previous mortgage or rent payments and the amount of disposable  
27 monthly income after payment of all monthly expenses.

28 LUM 2007-1 Prospectus Supplement at S-38.



1 363. The LUM 2007-1 Prospectus Supplement represented:

2 Such underwriting standards or guidelines generally are intended to  
3 evaluate the prospective borrower's credit standing and repayment ability  
4 and the value and adequacy of the mortgaged property as collateral.  
5 Some mortgage loans are manually underwritten, in which case an  
6 underwriter reviews a loan application and supporting documentation, if  
7 required, and a credit report of the borrower, and based on that review  
8 determines whether to originate a loan in the amount and with the terms  
9 stated in the loan application. Some mortgage loans may be underwritten  
10 through an automated underwriting system, including WaMu's automated  
11 underwriting system, described below.

12 LUM 2007-1 Prospectus Supplement at S-32.

13 364. The LUM 2007-1 Prospectus Supplement represented:

14 IndyMac Bank's underwriting criteria for traditionally underwritten  
15 mortgage loans includes an analysis of the borrower's credit history,  
16 ability to repay the mortgage loan and the adequacy of the mortgaged  
17 property as collateral. Traditional underwriting decisions are made by  
18 individuals authorized to consider compensating factors that would allow  
19 mortgage loans not otherwise meeting IndyMac Bank's guidelines.

20 LUM 2007-1 Prospectus Supplement at S-36.

21 365. The MHL 2006-1 Prospectus Supplement represented:

22 MortgageIT's underwriting philosophy is to weigh all risk factors inherent  
23 in the loan file, giving consideration to the individual transaction,  
24 borrower profile, the level of documentation provided and the property  
25 used to collateralize the debt. Because each loan is different, MortgageIT  
26 expects and encourages underwriters to use professional judgment based  
27 on their experience in making a lending decision.

28 MHL 2006-1 Prospectus Supplement at S-64.

1 366. The MHL 2006-1 Prospectus Supplement represented:

2 MortgageIT realizes that there may be some acceptable quality loans that  
3 fall outside published guidelines and encourages “common sense”  
4 underwriting. Because a multitude of factors are involved in a loan  
5 transaction, no set of guidelines can contemplate every potential  
6 situation. Therefore, exceptions to these underwriting guidelines are  
7 considered, so long as the borrower has other reasonable compensating  
8 factors, on a case-by-case basis.

9 MHL 2006-1 Prospectus Supplement at S-66.

10 367. The MHL 2006-1 Prospectus Supplement represented:

11 In order to determine if a borrower qualifies for a Pay Option ARM or  
12 Alt-A loan, MortgageIT underwriting staff or contract underwriters  
13 provided by certain mortgage insurance companies have manually  
14 underwritten and approved such loans. For manually underwritten loans,  
15 the underwriter must ensure that the borrower’s income will support the  
16 total housing expense on an ongoing basis. Underwriters may give  
17 consideration to borrowers who have demonstrated an ability to carry a  
18 similar or greater housing expense for an extended period. In addition to  
19 the monthly housing expense the underwriter must evaluate the  
20 borrower’s ability to manage all recurring payments on all debts,  
21 including the monthly housing expense. When evaluating the ratio of all  
22 monthly debt payments to the borrower’s monthly income (debt-to-  
23 income ratio), the underwriter should be aware of the degree and  
24 frequency of credit usage and its impact on the borrower’s ability to repay  
25 the loan. For example, borrowers who lower their total obligations  
26 should receive favorable consideration and borrowers with a history of  
27 heavy usage and a pattern of slow or late payments should receive less  
28 flexibility.

1 MHL 2006-1 Prospectus Supplement at S-65-66.

2 368. The MHL 2006-1 Prospectus Supplement represented:

3 MortgageIT underwrites a borrower's creditworthiness based solely on  
4 information that MortgageIT believes is indicative of the applicant's  
5 willingness and ability to pay the debt they would be incurring.

6 MHL 2006-1 Prospectus Supplement at S-64.

7 369. The MHL 2006-1 Prospectus Supplement represented:

8 In addition to reviewing the borrower's credit history and credit score,  
9 MortgageIT underwriters closely review the borrower's housing payment  
10 history. In general, for non-conforming loans the borrower should not  
11 have made any mortgage payments over 30 days after the due date for the  
12 most recent 24 months. In general, for Pay Option ARM and Alt-A  
13 loans the borrower may have no more than one payment that was made  
14 over 30 days after the due date for the most recent 24 months.

15 MHL 2006-1 Prospectus Supplement at S-65.

16 370. The SVHE 2005-OPT4 Prospectus Supplement represented: The  
17 Mortgage Loans will have been originated generally in accordance with Option One's  
18 Guidelines (the 'Option One Underwriting Guidelines')." SVHE 2005-OPT4  
19 Prospectus Supplement at S-54.

20 371. The SVHE 2005-OPT4 Prospectus Supplement represented: "On a  
21 case-by-case basis, exceptions to the Option One Underwriting Guidelines are made  
22 where compensating factors exist." SVHE 2005-OPT4 Prospectus Supplement at S-  
23 54.

24 372. The SVHE 2005-OPT4 Prospectus Supplement represented:

25 Option One Underwriting Guidelines require a reasonable determination  
26 of an applicant's ability to repay the loan. Such determination is based on  
27 a review of the applicant's source of income, calculation of a debt  
28

1 service-to-income ratio based on the amount of income from sources  
2 indicated on the loan application or similar documentation, a review of  
3 the applicant's credit history and the type and intended use of the  
4 property being financed.

5 SVHE 2005-OPT4 Prospectus Supplement at S-55.

6 373. The SVHE 2005-OPT4 Prospectus Supplement represented:

7 The Option One Underwriting Guidelines are primarily intended to  
8 assess the value of the mortgaged property, to evaluate the adequacy of  
9 such property as collateral for the mortgage loan and to assess the  
10 applicant's ability to repay the mortgage loan.

11 SVHE 2005-OPT4 Prospectus Supplement at S-54.

12 374. The WMLT 2006-ALT1 Prospectus Supplement represented:

13 National City Mortgage's underwriting standards are applied to evaluate  
14 the prospective borrower's credit standing and repayment ability and the  
15 value and adequacy of the mortgaged property as collateral. These  
16 standards are applied in accordance with the applicable federal and state  
17 laws and regulations. Exceptions to the underwriting standards are  
18 permitted where compensating factors are present.

19 WMLT 2006-ALT1 Prospectus Supplement at S-34.

20 375. The WMLT 2006-ALT1 Prospectus Supplement represented:

21 In determining whether a prospective borrower has sufficient monthly  
22 income available (i) to meet the borrower's monthly obligation on their  
23 proposed mortgage loan and (ii) to meet the monthly housing expenses  
24 and other financial obligation on the proposed mortgage loan, the  
25 originator generally considers, when required by the applicable  
26 documentation program, the ratio of such amounts to the proposed  
27 borrower's acceptable stable monthly gross income. Such ratios vary  
28

1 depending on a number of underwriting criteria, including loan-to-value  
2 ratios, and are determined on a loan-by-loan basis.

3 WMLT 2006-ALT1 Prospectus Supplement at S-35.

4 376. The NHELI 2007-1 Prospectus Supplement represented FNBN's  
5 reduced documentation underwriting guidelines as the following:

6 Under the stated income documentation and the no ratio programs, more  
7 emphasis is placed on a prospective borrower's credit score and on the  
8 value and adequacy of the Mortgaged Property as collateral and other  
9 assets of the prospective borrower rather than on income underwriting.  
10 The stated income documentation program requires prospective  
11 borrowers to provide information regarding their assets and income.  
12 Information regarding assets is verified through written communications  
13 or bank statements. Information regarding income is not verified. The  
14 no ratio program requires prospective borrowers to provide information  
15 regarding their assets, which is then verified through written  
16 communications or bank statements. The no ratio program does not  
17 require prospective borrowers to provide information regarding their  
18 income. In both the stated income and no ratio programs, the  
19 employment history is verified through written or telephonic  
20 communication.

21 NHELI 2007-1 Prospectus Supplement at S-106; NAA 2006-AR4 Prospectus  
22 Supplement at S-50.

23 377. The AHMA 2007-3 Prospectus Supplement represented:

24 Certain non-conforming stated income or stated asset products allow for  
25 less verification documentation than Fannie Mae or Freddie Mac require.  
26 Certain non-conforming Alt-A products also allow for less verification  
27 documentation than Fannie Mae or Freddie Mac require. For these Alt-  
28 A products the borrower may not be required to verify employment

1 income, assets required to close or both. For some other Alt-A products  
2 the borrower is not required to provide any information regarding  
3 employment income, assets required to close or both. Alt-A products  
4 with less verification documentation generally have other compensating  
5 factors such as higher credit score or lower loan-to-value requirements.

6 AHMA 2007-3 Prospectus Supplement at S-52; HVMLT 2007-5 Prospectus  
7 Supplement at S-30; HVMLT 2007-2 Prospectus Supplement at S-33.

8 378. The HVMLT 2006-8 Prospectus Supplement represented:

9 Under the Stated Income Verified Asset Documentation type, the  
10 mortgage loan application is reviewed to determine that the stated  
11 income is reasonable for the borrower's employment and that the assets  
12 are consistent with the borrower's income.

13 HVMLT 2006-8 Prospectus Supplement at S-61.

14 379. The HVMLT 2006-14 Prospectus Supplement represented:

15 Under the Stated Income Verified Asset Documentation type, the  
16 mortgage loan application is reviewed to determine that the stated  
17 income is reasonable for the borrower's employment and that the assets  
18 are consistent with the borrower's income. BankUnited obtains from a  
19 prospective borrower either a verification of deposit or bank statements  
20 for the two-month period immediately before the date of the mortgage  
21 loan application or verbal verification of employment.

22 HVMLT 2006-14 Prospectus Supplement at S-66; HVMLT 2006-10 Prospectus  
23 Supplement at S-64.

24 380. The HVMLT 2006-14 Prospectus Supplement represented:

25 Under the Stated Income Documentation Program and the No Ratio  
26 Program, more emphasis is placed on the prospective borrower's credit  
27 score and on the value and adequacy of the mortgaged property as  
28 collateral and other assets of the prospective borrower than on income

1 underwriting. The Stated Income Documentation Program requires  
2 prospective borrowers to provide information regarding their assets and  
3 income. Information regarding assets is verified through written  
4 communications. Information regarding income is not verified. The No  
5 Ratio Program requires prospective borrowers to provide information  
6 regarding their assets, which is then verified through written  
7 communications. The No Ratio Program does not require prospective  
8 borrowers to provide information regarding their income. Employment  
9 is orally verified under both programs.

10 HVMLT 2006-14 Prospectus Supplement at S-70.

11 381. The HVMLT 2007-1 Prospectus Supplement represented:

12 Under the Reduced Documentation Program, some underwriting  
13 documentation concerning income, employment and asset verification is  
14 waived. Countrywide Home Loans obtains from a prospective borrower  
15 either a verification of deposit or bank statements for the two-month  
16 period immediately before the date of the mortgage loan application or  
17 verbal verification of employment. Since information relating to a  
18 prospective borrower's income and employment is not verified, the  
19 borrower's debt-to-income ratios are calculated based on the information  
20 provided by the borrower in the mortgage loan application. The  
21 maximum Loan-to-Value Ratio ranges up to 95%.

22 HVMLT 2007-1 Prospectus Supplement at S-32; HVMLT 2006-12 Prospectus  
23 Supplement at S-70; HVMLT 2006-11 Prospectus Supplement at S-37; HVMLT 2006-  
24 9 Prospectus Supplement at S-66.

25 382. The HVMLT 2007-4 Prospectus Supplement represented:

26 Under the Reduced Documentation program, the mortgage loan  
27 application is reviewed to determine that the stated income is reasonable  
28 for the borrower's employment. Generally, employment is verified by



1 verbal verification. Paul Financial obtains from a prospective borrower  
2 either a verification of deposit or bank statements for a two-month  
3 period within 120 days of the date of the mortgage loan application or  
4 verbal verification of employment. Since information relating to a  
5 prospective borrower's income is not verified, the borrower's debt-to-  
6 income ratios are calculated based on the information provided by the  
7 borrower in the mortgage loan application.

8 HVMLT 2007-4 Prospectus Supplement at S-36.

9 383. The INDX 2006-AR35 Prospectus Supplement represented:

10 The Stated Income Documentation Program requires prospective  
11 borrowers to provide information regarding their assets and income.  
12 Information regarding a borrower's assets, if applicable, is verified  
13 through written communications. Information regarding income is not  
14 verified and employment verification may not be written.

15 INDX 2006-AR35 Prospectus Supplement at S-68; *see* INDX 2006-AR35 Registration  
16 Statement, Feb. 24, 2006, at S-29.

17 384. The MHL 2006-1 Prospectus Supplement represented:

18 Generally, under a "stated income/verified assets" program, no  
19 verification of a mortgagor's income is undertaken by the origination;  
20 however, verification of the mortgagor's assets is obtained.

21 MHL 2006-1 Prospectus Supplement at S-65.

22 385. The MHL 2006-1 Prospectus Supplement represented:

23 Generally, under both "full/alternative" documentation programs, at  
24 least one month of income documentation is provided. This  
25 documentation is also required to include year-to-date income or prior  
26 year income in case the former is not sufficient to establish consistent  
27 income.

28 MHL 2006-1 Prospectus Supplement at S-65.

1 386. The MHL 2006-1 Prospectus Supplement represented:

2 The Pay Option ARM and Alt-A mortgage loans are generally  
3 documented to the requirements of Fannie Mae and Freddie Mac in that  
4 the borrower provides the same information on the loan application  
5 along with documentation to verify the accuracy of the information on  
6 the application such as income, assets, other liabilities, etc. Certain non-  
7 conforming stated income or stated asset products allow for less  
8 verification documentation than Fannie Mae or Freddie Mac require.  
9 Certain Pay Option ARM and Alt-A products also allow for less  
10 verification documentation than Fannie Mae or Freddie Mac requires.  
11 For these Pay Option ARM and Alt-A products, the borrower may not  
12 be required to verify employment income, assets required to close or  
13 both. For some other Pay Option ARM and Alt-A products the  
14 borrower is not required to provide any information regarding  
15 employment income, assets required to close or both. Pay Option ARM  
16 and Alt-A products with less verification documentation generally have  
17 other compensating factors such as higher credit score or lower loan-to-  
18 value requirements.

19 MHL 2006-1 Prospectus Supplement at S-65.

20 387. The WMLT 2006-ALT1 Prospectus Supplement represented:

21 *Stated Documentation.* Under a stated income documentation program,  
22 more emphasis is placed on the value and adequacy of the mortgaged  
23 property as collateral, credit history and other assets of the borrower than  
24 on a verified income of the borrower. Although the income is not  
25 verified, the originators obtain a telephonic verification of the borrower's  
26 employment without reference to income. Employment stability is a  
27 critical component in evaluating the borrower's continuing ability to meet  
28 obligations. Borrower's assets may or may not be verified.

1 WMLT 2006-ALT1 Prospectus Supplement at S-36.

2 388. UNTRUE STATEMENTS AND OMITTED INFORMATION: The  
3 preceding statements were material at the time they were made, because the quality of  
4 the loans in the mortgage pool directly affects the riskiness of the RMBS investment,  
5 and the quality of the loans is dependent upon the underwriting process employed.  
6 The preceding statements were untrue at the time they were made because, as alleged  
7 herein, the Originators did not adhere to the stated underwriting guidelines, did not  
8 effectively evaluate the borrowers' ability or likelihood to repay the loans, did not  
9 properly evaluate whether the borrower's debt-to-income ratio supported a conclusion  
10 that the borrower had the means to meet his/her monthly obligations, and did not  
11 ensure that adequate compensating factors justified the granting of exceptions to  
12 guidelines. Rather, as alleged herein, the Originators systematically disregarded the  
13 stated underwriting guidelines in order to increase the volume of mortgages originated  
14 (*see supra* Section VII.D). Further evidence of this fact is found in, among other things,  
15 the surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the  
16 rate at which actual losses outpaced expected losses within the first year after the  
17 offerings (*see supra* Figure 2), the collapse of the credit ratings (*see supra* Table 4), and  
18 the fact that the Originators were engaged in high OTD lending (*see supra* Table 6).

19 **E. Untrue Statements Concerning Loan-to-Value Ratios**

20 389. The AHMA 2007-3 Prospectus Supplement represented:

21 The Originator sets various maximum loan-to-value ratios based on the  
22 loan amount, property type, loan purpose and occupancy of the subject  
23 property securing the loan. In general, the Originator requires lower  
24 loan-to-value ratios for those loans that are perceived to have a higher  
25 risk, such as high loan amounts, loans in which additional cash is being  
26 taken out on a refinance transaction or loans on second homes. A lower  
27 loan-to-value ratio requires a borrower to have more equity in the  
28

1 property which is a significant additional incentive to the borrower to  
2 avoid default on the loan.

3 AHMA 2007-3 Prospectus Supplement at S-53.

4 390. The INDX 2006-AR35 Prospectus Supplement represented: "Maximum  
5 loan-to-value and combined loan-to-value ratios and loan amounts are established  
6 according to the occupancy type, loan purpose, property type, FICO Credit Score,  
7 number of previous late mortgage payments and the age of any bankruptcy or  
8 foreclosure actions." INDX 2006-AR35 Prospectus Supplement at S-68; *see* INDX  
9 2006-AR35 Registration Statement, Feb. 24, 2006, at S-30.

10 391. The LUM 2007-1 Prospectus Supplement represented: "Maximum loan-  
11 to-value and combined loan-to-value ratios and loan amounts are established  
12 according to the occupancy type, loan purpose, property type, FICO Credit Score,  
13 number of previous late mortgage payments and the age of any bankruptcy or  
14 foreclosure actions." LUM 2007-1 Prospectus Supplement at S-38.

15 392. The MHL 2006-1 Prospectus Supplement represented:

16 The appraiser's value conclusion is used to calculate the ratio (loan-to-  
17 value) of the loan amount to the value of the property. For loans made  
18 to purchase a property this ratio is based on the lower of the sales price  
19 of the property and the appraised value. MortgageIT sets various  
20 maximum loan-to-value ratios based on the loan amount, property type,  
21 loan purpose and occupancy of the subject property securing the loan.  
22 In general, MortgageIT requires lower loan-to-value ratios for those loans  
23 that are perceived to have a higher risk, such as high loan amounts, loans  
24 in which additional cash is being taken out on a refinance transaction or  
25 loans on second homes. A lower loan-to-value ratio requires a borrower  
26 to have more equity in the property, which is a significant additional  
27 incentive to the borrower to avoid default on the loan. In addition, for  
28 all conventional loans in which the loan-to-value ratio exceeds 80%,

1 MortgageIT requires that a private mortgage insurance company that is  
2 approved by Fannie Mae and Freddie Mac insure the loan. Higher loan-  
3 to-value ratios require higher coverage levels.

4 MHL 2006-1 Prospectus Supplement at S-64-65.

5 393. The SVHE 2005-OPT4 Prospectus Supplement represented:

6 Option One recognizes that an appraised value is an opinion and thus,  
7 allows for variances to the appraisal based on a review of such appraisal,  
8 the loan-to-value ratio ("LTV") and other risk factors. The maximum  
9 variance between the appraisal and a review of the appraisal is limited to  
10 (i) 10% for LTVs that are less than or equal to 85%, (ii) 5% for LTVs  
11 between 85.01% and 95%, and (iii) 3% for LTVs over 95%.

12 SVHE 2005-OPT4 Prospectus Supplement at S-55.

13 394. UNTRUE STATEMENTS AND OMITTED INFORMATION: The  
14 preceding statements were material at the time they were made because the riskiness of  
15 the RMBS investment is directly dependent on the quality of the underwriting process  
16 and adequate assessment and limits on loan-to-value ratios (in addition to accurate  
17 appraisals) is key to that process. The preceding statements were untrue at the time  
18 they were made because the Originators did not adhere to the maximum loan-to-value  
19 ratios as represented in the offering document, encouraged inflated appraisals and  
20 frequently granted loans with high loan-to-value ratios with no meaningful assessment  
21 of the borrower's ability to repay the loan based on the borrower's credit profile (*see*  
22 *supra* Section VII.D). Further evidence of this fact is found in, among other things, the  
23 surge in delinquencies and defaults shortly after the offerings (*see supra* Table 5), the  
24 huge discrepancy between expected and actual losses (*see supra* Figure 2), the collapse  
25 of the credit ratings (*see supra* Table 4), and the fact that the Originators were engaged  
26 in high OTD lending (*see supra* Table 6).

**F. Untrue Statements Concerning Credit Enhancement**

395. With regard to credit enhancement, the NHELI 2007-1 Prospectus Supplement represented:

The credit enhancement features described in this prospectus supplement are intended to enhance the likelihood that holders of the Group I Senior Certificates and Group II Senior Certificates will receive regular distributions of interest and principal from amounts received or advanced on the related Mortgage Loans. However, we cannot assure you that the applicable credit enhancement will adequately cover any shortfalls in cash available to distribute to your certificates as a result of delinquencies or defaults on the related Mortgage Loans. If delinquencies or defaults occur on the related Mortgage Loans, neither the servicers nor any other entity will advance scheduled monthly payments of interest and principal on delinquent or defaulted Mortgage Loans if such advances are not likely to be recovered.

NHELI 2007-1 Prospectus Supplement at S-38.

396. The AHMA 2007-3 Prospectus Supplement represented: “Any decrease in the value of the mortgage properties related to the mortgage loans may result in the allocation of losses which are not covered by credit enhancement to the offered certificates.” AHMA 2007-3 Prospectus Supplement at S-24; *see* AHMA 2007-3 Registration Statement, Feb. 6, 2007, at S-16.

397. The FFMLT 2005-FFH4 Prospectus Supplement represented:

The credit enhancement features described in the summary of this prospectus supplement are intended to enhance the likelihood that holders of the Class A Certificates, and to a limited extent, the holders of the Mezzanine Certificates and the Class B Certificates, will receive regular distributions of interest and principal.

FFMLT 2005-FFH4 Prospectus Supplement at S-16.



1 398. The HVMLT 2006-8 Prospectus Supplement represented:

2 Subordination is designed to provide the holders of certificates with a  
3 higher payment priority with protection against losses realized when the  
4 remaining unpaid principal balance on a mortgage loan exceeds the  
5 amount of proceeds recovered upon the liquidation of that mortgage  
6 loan.

7 HVMLT 2006-8 Prospectus Supplement at S-10; HVMLT 2006-9 Prospectus  
8 Supplement at S-10; HVMLT 2006-10 Prospectus Supplement at S-10; HVMLT 2006-  
9 11 Prospectus Supplement at S-8; HVMLT 2006-12 Prospectus Supplement at S-10-  
10 11; HVMLT 2006-14 Prospectus Supplement at S-11; HVMLT 2007-1 Prospectus  
11 Supplement at S-9; HVMLT 2007-2 Prospectus Supplement at S-11; HVMLT 2007-4  
12 Prospectus Supplement at S-11; HVMLT 2007-5 Prospectus Supplement at S-9.

13 399. The INDX 2006-AR35 Prospectus Supplement represented: “The  
14 subordination features of the issuing entity are intended to enhance the likelihood that  
15 senior certificate holders will receive regular payments of interest and principal, as  
16 applicable.” INDX 2006-AR35 Prospectus Supplement at S-25; *see* INDX 2006-AR35  
17 Registration Statement, Feb. 24, 2006 at S-18.

18 400. The LUM 2007-1 Prospectus Supplement represented:

19 Credit enhancement is intended to reduce the loss caused to holders of  
20 the certificates as a result of shortfalls in payments received and losses  
21 realized on the mortgage loans. The credit enhancement for each of the  
22 Class I and Class II offered certificates includes subordination, excess  
23 interest, overcollateralization and realized loss allocation with respect to  
24 the related group of mortgage loans. In addition, substantially all of the  
25 mortgage loans with loan-to-value ratios equal to or greater than 75% are  
26 covered by one or more primary mortgage insurance policies that, subject  
27 to compliance with the terms of the policy, would cover a portion of any  
28 losses on a covered loan.



1 LUM 2007-1 Prospectus Supplement at S-6.

2 401. The SVHE 2005-OPT4 Prospectus Supplement represented:

3 The credit enhancement features described in this prospectus supplement  
4 are intended to enhance the likelihood that holders of the Class A  
5 Certificates and the Mezzanine Certificates, will receive regular  
6 distributions of interest and principal. However, we cannot assure you  
7 that the applicable credit enhancement will adequately cover any  
8 shortfalls in cash available to pay your certificates as a result of  
9 delinquencies or defaults on the Mortgage Loans. If delinquencies or  
10 defaults occur on the Mortgage Loans, neither the Servicer nor any other  
11 entity will advance scheduled monthly payments of interest and principal  
12 on delinquent or defaulted Mortgage Loans if such advances are not  
13 likely to be recovered.

14 SVHE 2005-OPT4 Prospectus Supplement at S-14.

15 402. UNTRUE STATEMENTS AND OMITTED INFORMATION: The  
16 preceding statements were material at the time they were made, because WesCorp  
17 nearly always purchased the highest rated tranches of the RMBS, and those highly-  
18 rated tranches relied on the credit enhancement, which purportedly afforded  
19 protection against financial loss. The preceding statements were untrue at the time  
20 they were made, because, due to the Originators' systematic disregard of underwriting  
21 standards, the mortgages in the pools were fatally impaired at the outset and destined  
22 to fail (*see supra* Section VII.D). This rendered the protection allegedly afforded by the  
23 credit enhancement in the highest tranches illusory. Further evidence of the  
24 Originators' pervasive disregard of underwriting standards is found in the surge in  
25 delinquencies and defaults shortly after the offerings (*see supra* Table 5); the huge  
26 discrepancy between expected and actual losses (*see supra* Figure 2); the collapse of the  
27  
28

1 credit ratings (*see supra* Table 4); and the Originators' high OTD lending (*see supra* Table  
2 6).

3 **IX. THE CLAIMS ARE TIMELY**

4 403. For actions brought by the NCUA Board as Liquidating Agent, the  
5 FCUA extends the statute of limitations for at least three years from the date of the  
6 appointment of the NCUA Board as Conservator or Liquidating Agent. *See* 12 U.S.C.  
7 § 1787(b)(14)(B)(i).

8 404. The NCUA Board placed WesCorp into conservatorship and appointed  
9 itself as conservator on March 20, 2009. On October 1, 2010, the NCUA Board  
10 placed WesCorp in liquidation and appointed itself Liquidating Agent.

11 405. Actions brought under Sections 11 and 12(a)(2) of the Securities Act  
12 must be:

13 brought within one year after the discovery of the untrue statement or  
14 the omission, or after such discovery should have been made by the  
15 exercise of reasonable diligence. . . . In no event shall any such action be  
16 brought to enforce a liability created under section 77k or 77l(a)(1) of this  
17 title more than three years after the security was bona fide offered to the  
18 public, or under section 77l(a)(2) of this title more than three years after  
19 the sale.

20 15 U.S.C. § 77m.

21 406. Actions brought under section 25501 of the California Corporate  
22 Securities Law of 1968, must be brought within "five years after the act or transaction  
23 constituting the violation or the expiration of two years after the discovery by the  
24 plaintiff of the facts constituting the violation, whichever shall first expire." Cal. Corp.  
25 Code § 25506(b).

26 407. As the Federal Reserve Board noted in November 2008, the  
27 "deteriorating lending standards" and "the surge in early payment defaults suggests  
28 that underwriting . . . deteriorated on dimensions that were less readily apparent to

investors.” Christopher Mayer *et al.*, *The Rise in Mortgage Defaults* at 15-16; *see also* FSOC Risk Retention Report at 9.

408. The FSOC explained that the origination and securitization process contains inherent “information asymmetries” that put investors at a disadvantage regarding critical information concerning the quality and performance of RMBS. The FSOC Risk Retention Report described the information disadvantage for investors of RMBS:

One important informational friction highlighted during the recent financial crisis has aspects of a “lemons” problem that exists between the issuer and investor. An originator has more information about the ability of a borrower to repay than an investor, because the originator is the party making the loan. Because the investor is several steps removed from the borrower, the investor may receive less robust loan performance information. Additionally, the large number of assets and the disclosures provided to investors may not include sufficient information on the quality of the underlying financial assets for investors to undertake full due diligence on each asset that backs the security.

FSOC Risk Retention Report at 9 (footnote omitted).

409. Accordingly, WesCorp did not discover and could not have discovered the material untrue statements and/or misleading omissions in the Offering Documents more than one year prior to March 20, 2009, the date on which the NCUA Board placed WesCorp into conservatorship.

410. With respect to those RMBS purchases for which the NCUA Board asserts claims under Section 11 of the Securities Act (Claims One through Seven), the earliest date they were bona fide offered to the public was August 1, 2006, or not more than three years prior to March 20, 2009. Accordingly, the NCUA Board’s Section 11 claims are not time-barred.

1 411. With respect to those RMBS purchases for which the NCUA Board  
2 asserts claims under Section 12(a)(2) (Claims Eight through Thirteen), the earliest sale  
3 was August 1, 2006, or not more than three years prior to March 20, 2009.

4 Accordingly, the NCUA Board's Section 12(a)(2) claims are not time-barred.

5 412. With respect to those RMBS purchases for which the NCUA Board  
6 asserts claims under state law (Claim Fourteen), the earliest purchase date/offering  
7 date with respect to those claims was November 22, 2005, or not more than five years  
8 prior to March 20, 2009. Accordingly, the NCUA Board's state law claims are not  
9 time-barred.

10 **X. NUMEROUS CLAIMS ARE INDEPENDENTLY TIMELY BY**  
11 **VIRTUE OF *AMERICAN PIPE***

12 413. WesCorp and/or the NCUA Board as its Liquidating Agent are or were  
13 members of putative classes asserting claims on their behalf for certificates in the  
14 NAA 2006-AR4, HVMLT 2006-8, HVMLT 2006-9, HVMLT 2006-10, HVML 2006-  
15 11, HVMLT 2006-12, HVMLT 2006-14, HVMLT 2007-1, HVMLT 2007-2, HVMLT  
16 2007-5, and INDX 2006-AR35 offerings. Accordingly, the NCUA Board's claims  
17 relating to those offerings are subject to legal tolling of the statute of limitations and  
18 statute of repose under the doctrine announced in *American Pipe & Constr. Co. v. Utah*,  
19 414 U.S. 538 (1974) ("*American Pipe*") and its progeny. See Tables 11, 12 (attached as  
20 Appendix to Complaint).

21 414. NAA 2006-AR4 offering: *American Pipe* tolling applies to this offering  
22 from January 31, 2008 until January 20, 2011. The Prospectus and Prospectus  
23 Supplement for this offering issued on November 17, 2006 and November 29, 2006,  
24 respectively. On November 17, 2006, WesCorp purchased the A1B tranche of this  
25 offering from RBS. The case which supplies this tolling is Complaint, *Plumbers' Union*  
26 *Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp.*, No. 08-544 (Mass. Sup. Ct.  
27 filed January 31, 2008), *removed to* No. 08-10446 (D. Mass Mar. 18, 2008). The named  
28 plaintiff, Plumbers' Union Local No. 12 Pension Fund, asserted Section 11 and

1 Section 12 claims against Nomura Asset Acceptance and RBS for misstatements and  
2 omissions in RMBS offering documents, such as the supposed compliance with stated  
3 underwriting guidelines. The Pension Fund purported to represent a class of all  
4 individuals who purchased from several Nomura offerings issued between July 2005  
5 and November 2006, including NAA 2006-AR4. *See id.* ¶¶ 1, 12. The Pension Fund  
6 did not disclose which certificates it purchased until November 24, 2008, when it  
7 disclosed that it had purchased certificates in the Alternative Loan Trust 2006-AF1  
8 offering. *Plumbers' Union*, Doc. 30-3 at 4 (D. Mass. Nov. 24, 2008); *see also id.* at 7  
9 (Plumbers' & Pipefitters' Welfare Education Fund disclosing that it had purchased  
10 certificates from the Alternative Loan Trust 2006-AP1 offering).

11 415. HVMLT 2006-8 offering: *American Pipe* tolling applies to this offering  
12 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
13 for this offering issued on August 10, 2006 and August 28, 2006, respectively. On  
14 August 1, 2006, WesCorp purchased the 2A1C tranche of this offering from RBS.  
15 The case which supplies this tolling is Consolidated First Amended Securities Class  
16 Action Complaint, *New Jersey Carpenters Vacation Fund v. Royal Bank of Scotland Group, plc*,  
17 No. 08-5093 (S.D.N.Y. filed May 19, 2009). The named plaintiff, New Jersey  
18 Carpenters Vacation Fund, asserted Section 11 and 12 claims against RBS and  
19 Greenwich Capital Acceptance for misstatements and omissions in RMBS offering  
20 documents, such as the supposed compliance with stated underwriting guidelines. The  
21 Vacation Fund purported to assert claims on behalf of purchasers of certificates in the  
22 HVMLT 2006-8, HVMLT 2006-10, HVMLT 2006-11, HVMLT 2006-12, HVMLT  
23 2006-14, HVMLT 2007-1, HVMLT 2007-2, and HVMLT 2007-5 offerings. *See id.*  
24 ¶¶ 1, 34-35. The Vacation Fund disclosed it had purchased a Class B1 certificate from  
25 HVMLT 2006-4, and another plaintiff – Boilermaker Blacksmith National Pension  
26 Trust – disclosed it had purchased a Class 2A1A certificate from HarborView 2007-7.  
27 *See id.* ¶¶ 19-20. On July 12, 2010 and July 30, 2010, the Midwest Operating Engineers  
28 Pension Fund (“Operating Engineers”), the Laborers’ Pension Fund and Health and

1 Welfare Department of the Construction and General Laborers' District Council of  
2 Chicago and Vicinity ("Chicago Laborers"), and the Iowa Public Employees'  
3 Retirement System ("IPERS") moved to intervene and disclosed that they had  
4 purchased a Class 2A1A certificate in HVMLT 2006-10; a class 2A1A certificate in  
5 HVMLT 2006-14; and other certificates in the HVMLT 2006-7, HVMLT 2006-9,  
6 HVMLT 2006-10; HVMLT 2006-11, HVMLT 2006-12, and HVMLT 2007-7  
7 offerings. *N.J. Carpenters*, Docs. 104-1 (S.D.N.Y. July 12, 2010) (Chicago Laborers),  
8 104-2 (S.D.N.Y. July 12, 2010) (Operating Engineers), 118-1 (S.D.N.Y. July 30, 2010)  
9 (IPERS); *see also New Jersey Carpenters Health Fund v. Residential Capital, LLC*, Nos. 08 CV  
10 8781, 08 CV 5093, 2010 WL 5222127 (S.D.N.Y. Dec. 22, 2010) (granting  
11 intervention).

12 416. HVMLT 2006-9 offering: *American Pipe* tolling applies to this offering  
13 from May 14, 2008 until July 18, 2011. The Prospectus and Prospectus Supplement  
14 for this offering issued on August 10, 2006 and October 3, 2006, respectively. On  
15 August 18, 2006, WesCorp purchased the 2A1C1 tranche of this offering from RBS.  
16 On March 8, 2007, WesCorp purchased the 2A1B2 tranche of this offering from RBS.  
17 The case which supplies this tolling is Complaint, *New Jersey Carpenters Vacation Fund v.*  
18 *The Royal Bank of Scotland Group, plc*, No. 08-601451 (N.Y. Sup. Ct. filed May 14, 2008),  
19 *removed to* No. 08-5093 (S.D.N.Y. June 3, 2008). The named plaintiff, New Jersey  
20 Carpenters Vacation Fund, asserted Section 11 and 12 claims against RBS and  
21 Greenwich Capital Acceptance for misstatements and omissions in RMBS offering  
22 documents, such as the supposed compliance with stated underwriting guidelines. The  
23 Vacation Fund purported to assert claims on behalf of purchasers of certificates in the  
24 HVMLT 2006-9 offering. *See id.* ¶ 1. The Vacation Fund did not disclose which  
25 certificates it bought until March 24, 2009, when it disclosed that it had purchased a  
26 Class B1 certificate from HVMLT 2006-4. *See New Jersey Carpenters*, Doc. 47-2 at 3  
27 (S.D.N.Y. Mar. 24, 2009); *see also New Jersey Carpenters*, Doc. 47-3 at 3 (S.D.N.Y. Mar.  
28 24, 2009) (Boilermaker Blacksmith National Pension Trust disclosing that it had



1 purchased a Class 2A1A certificate from HVMLT 2007-7); *New Jersey Carpenters*,  
2 Consolidated First Amended Securities Class Action Complaint, Doc. 54 at ¶¶ 19-20  
3 (S.D.N.Y. May 19, 2009) (amended complaint setting forth the prior purchases). On  
4 July 12, 2010 and July 30, 2010, the Operating Engineers, Chicago Laborers, and  
5 IPERS moved to intervene and disclosed that they had purchased a Class 2A1A  
6 certificate in HVMLT 2006-10; a class 2A1A certificate in HVMLT 2006-14; and other  
7 certificates in the HVMLT 2006-7, HVMLT 2006-9, HVMLT 2006-10; HVMLT  
8 2006-11, HVMLT 2006-12, and HVMLT 2007-7 offerings. *N.J. Carpenters*, Docs. 104-  
9 1 (S.D.N.Y. July 12, 2010) (Chicago Laborers), 104-2 (S.D.N.Y. July 12, 2010)  
10 (Operating Engineers), 118-1 (S.D.N.Y. July 30, 2010) (IPERS); *see also New Jersey*  
11 *Carpenters Health Fund v. Residential Capital, LLC*, Nos. 08 CV 8781, 08 CV 5093, 2010  
12 WL 5222127 (S.D.N.Y. Dec. 22, 2010) (granting intervention).

13 417. HVMLT 2006-10 offering: *American Pipe* tolling applies to this offering  
14 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
15 for this offering issued on August 10, 2006 and November 10, 2006, respectively. On  
16 October 18, 2006, WesCorp purchased the 2A1B tranche of this offering from RBS.  
17 The case which supplies this tolling is Consolidated First Amended Securities Class  
18 Action Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland*  
19 *Group, plc*, No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding this case  
20 from paragraph 415 are incorporated herein.

21 418. HVMLT 2006-11 offering: *American Pipe* tolling applies to this offering  
22 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
23 for this offering issued on August 10, 2006 and November 10, 2006, respectively. On  
24 October 27, 2006, WesCorp purchased the A1B tranche of this offering from RBS.  
25 The case which supplies this tolling is Consolidated First Amended Securities Class  
26 Action Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland*  
27 *Group, plc*, No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding this case  
28 from paragraph 415 are incorporated herein.



1           419. HVMLT 2006-12 offering: *American Pipe* tolling applies to this offering  
2 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
3 for this offering issued on August 10, 2006 and December 11, 2006, respectively. On  
4 October 19, 2006, WesCorp purchased the 2A2B tranche of this offering from RBS.  
5 On November 29, 2006, WesCorp purchased the 2A2C tranches of this offering from  
6 RBS. The case which supplies this tolling is Consolidated First Amended Securities  
7 Class Action Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland*  
8 *Group, plc*, No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding this case  
9 from paragraph 415 are incorporated herein.

10           420. HVMLT 2006-14 offering: *American Pipe* tolling applies to this offering  
11 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
12 for this offering issued on August 10, 2006 and December 20, 2006, respectively. On  
13 December 5, 2006, WesCorp purchased the 2A1B and 2A2C tranches of this offering  
14 from RBS. The case which supplies this tolling is Consolidated First Amended  
15 Securities Class Action Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank*  
16 *of Scotland Group, plc*, No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding  
17 this case from paragraph 415 are incorporated herein.

18           421. HVMLT 2007-1 offering: *American Pipe* tolling applies to this offering  
19 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
20 for this offering issued on January 30, 2007 and March 7, 2007, respectively. On  
21 February 14, 2007, WesCorp purchased the B1 tranche of this offering from RBS. On  
22 February 16, 2007, WesCorp purchased the 2A1C2 tranche of this offering from RBS.  
23 On March 12, 2007, WesCorp purchased the 2A1C2 tranche of this offering from  
24 RBS. The case which supplies this tolling is Consolidated First Amended Securities  
25 Class Action Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland*  
26 *Group, plc*, No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding this case  
27 from paragraph 415 are incorporated herein.  
28

1           422. HVMLT 2007-2 offering: *American Pipe* tolling applies to this offering  
2 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
3 for this offering issued on March 26, 2007 and March 29, 2007, respectively. On  
4 March 1, 2007, WesCorp purchased the 2A1B tranche of this offering from RBS. The  
5 case which supplies this tolling is Consolidated First Amended Securities Class Action  
6 Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc*,  
7 No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding this case from  
8 paragraph 415 are incorporated herein.

9           423. HVMLT 2007-5 offering: *American Pipe* tolling applies to this offering  
10 from May 19, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement  
11 for this offering issued on July 5, 2007 and July 11, 2007, respectively. On June 26,  
12 2007, WesCorp purchased the A1B and A1C tranches of this offering from RBS. The  
13 case which supplies this tolling is Consolidated First Amended Securities Class Action  
14 Complaint, *New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc*,  
15 No. 08-5093 (S.D.N.Y. filed May 19, 2009). The facts regarding this case from  
16 paragraph 415 are incorporated herein.

17           424. INDX 2006-AR35: *American Pipe* tolling applies to this offering from  
18 January 20, 2009 until July 18, 2011. The Prospectus and Prospectus Supplement for  
19 this offering issued on October 26, 2006 and November 29, 2006, respectively. On  
20 November 28, 2006, WesCorp purchased the 2A3A and 2A3B tranches of this  
21 offering from RBS. The cases which supply the tolling are Complaint, *IBEW Local*  
22 *103 v. IndyMac MBS, Inc.*, No. BC405843 (L.A. Sup. Ct. filed Jan. 20, 2009), *removed to*  
23 *No. 09-1520 (C.D. Cal. Mar. 4, 2009)*; Complaint, *Police & Fire Retirement System of the*  
24 *City of Detroit v. IndyMac MBS, Inc.*, No. 09-4583 (S.D.N.Y. filed May 14, 2009); and  
25 Complaint, *Wyoming State Treasurer v. Olinski*, No. 09-5933 (S.D.N.Y. filed June 29,  
26 2009). The named plaintiffs, IBEW Local 103, Police and Fire Retirement System of  
27 Detroit ("PFRS"), and Wyoming State Treasurer asserted Section 11 and 12 claims  
28 against RBS for misstatements and omissions in RMBS offering documents, such as

1 the supposed compliance with stated underwriting guidelines. They purported to  
2 assert claims on behalf of purchasers of certificates in the INDX 2006-AR35 offering.  
3 *See IBEW Local 103*, No. 09-1520, Doc. 1-4 at ¶¶ 1, 28; *PFRS v. IndyMac*, No. 09-4583,  
4 Doc. 1 at ¶¶ 2-3, 24, 40; *Wyoming State Treasurer*, No. 09-5933, Doc. 1 at ¶¶ 1, 22, 38.  
5 IBEW Local 103 did not disclose which certificates it had purchased until July 13,  
6 2009, when it disclosed that it had purchased an INDX 2006-AR25 Certificate. *See*  
7 *PFRS v. IndyMac*, No. 09-4583, Doc. 19-7 at 4 (S.D.N.Y. filed July 13, 2009). On May  
8 14, 2009, PFRS disclosed it had purchased a Class 1A1 certificate in the INDX 2007-  
9 AR5 offering, Complaint, *PFRS v. IndyMac*, No. 09-4583 (S.D.N.Y. filed May 14,  
10 2009). On June 29, 2009, the Wyoming State Treasurer and Wyoming Retirement  
11 System disclosed they had purchased certificates in 16 different IndyMac offerings,  
12 including a Class 2A1A certificate from INDX 2006-AR35. *Wyoming State Treasurer v.*  
13 *Olinski*, No. 09-5933 (S.D.N.Y. filed June 29, 2009). The cases were consolidated into  
14 *In re IndyMac Mortg.-Backed Sec. Litig.*, No. 09-4583 (S.D.N.Y.), and the Wyoming  
15 plaintiffs were appointed lead plaintiffs. *See Order, PFRS v. IndyMac*, No. 09-4583,  
16 Doc. 58 (S.D.N.Y. July 29, 2009).

17 **XI. CLAIMS FOR RELIEF**

18 **FIRST CLAIM FOR RELIEF**  
19 **Section 11 of the Securities Act**  
20 **(NAA 2006-AR4)**

21 425. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
22 as though fully set forth here, except those paragraphs specific to the Issuer  
23 Defendants other than Nomura Asset Acceptance Corp., or specific to offerings other  
24 than the NAA 2006-AR4 offering. The NCUA Board brings this cause of action  
25 pursuant to Section 11 of the Securities Act, with respect to WesCorp's purchase of  
26 the NAA 2006-AR4 certificate against Defendant RBS, as underwriter, and against  
27 Defendant Nomura Asset Acceptance Corp., as issuer.  
28

1 426. The NCUA Board expressly disclaims and disavows any allegation that  
2 could be construed as alleging fraud.

3 427. At the time the registration statement became effective, it (including the  
4 prospectus and any prospectus supplements) contained untrue statements and omitted  
5 facts that were necessary to make the statements made not misleading, as alleged  
6 above.

7 428. The untrue statements and omitted facts were material because a  
8 reasonably prudent investor deciding whether to purchase the certificate would have  
9 viewed them as important and as substantially altering the total mix of information  
10 available, as alleged above.

11 429. WesCorp purchased the certificate pursuant to and traceable to the  
12 defective registration statement, as alleged above.

13 430. At the time WesCorp purchased the certificate, it did not know of the  
14 untrue statements and omissions contained in the registration statement.

15 431. RBS's and Nomura Asset Acceptance Corp's conduct as alleged above  
16 violated Section 11.

17 432. WesCorp and the NCUA Board sustained damages as a result of  
18 Defendant RBS's and Defendant Nomura Asset Acceptance Corp.'s violations of  
19 Section 11.

20 433. WHEREFORE, the NCUA Board requests the Court to enter judgment  
21 in its favor against Defendant RBS and Defendant Nomura Asset Acceptance Corp.,  
22 jointly and severally, awarding all damages, in an amount to be proven at trial, costs,  
23 and such other relief as the Court deems appropriate and just.

24 **SECOND CLAIM FOR RELIEF**  
25 **Section 11 of the Securities Act**  
26 **(AHMA 2007-3)**

27 434. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
28 as though fully set forth here, except those paragraphs specific to the Issuer

1 Defendants other than American Home Mortgage Assets LLC, or specific to offerings  
2 other than the AHMA 2007-3 offering.

3 435. The NCUA Board brings this cause of action pursuant to Section 11 of  
4 the Securities Act, with respect to WesCorp's purchase of the AHMA 2007-3  
5 certificate against Defendant RBS, as underwriter, and against Defendant American  
6 Home Mortgage Assets LLC, as the issuer.

7 436. The NCUA Board expressly disclaims and disavows any allegation that  
8 could be construed as alleging fraud.

9 437. At the time the registration statement became effective, it (including the  
10 prospectus and any prospectus supplements) contained untrue statements and omitted  
11 facts that were necessary to make the statements made not misleading, as alleged  
12 above.

13 438. The untrue statements and omitted facts were material because a  
14 reasonably prudent investor deciding whether to purchase the certificate would have  
15 viewed them as important and as substantially altering the total mix of information  
16 available, as alleged above.

17 439. WesCorp purchased the certificate pursuant to and traceable to the  
18 defective registration statement, as alleged above.

19 440. At the time WesCorp purchased the certificate, it did not know of the  
20 untrue statements and omissions contained in the registration statement.

21 441. RBS's and American Home Mortgage Assets LLC's conduct as alleged  
22 above violated Section 11.

23 442. WesCorp and the NCUA Board sustained damages as a result of  
24 Defendant RBS's and Defendant American Home Mortgage Assets LLC's violations  
25 of Section 11.

26 443. WHEREFORE, the NCUA Board requests the Court to enter judgment  
27 in its favor against Defendant RBS and Defendant American Home Mortgage Assets  
28

1 LLC, jointly and severally awarding all damages, in an amount to be proven at trial,  
2 costs, and such other relief as the Court deems appropriate and just.

3 **THIRD CLAIM FOR RELIEF**

4 **Section 11 of the Securities Act**

5 **(HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT**  
6 **2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9,**  
7 **and HVMLT 2006-8)**

8 444. The NCUA Board realleges paragraphs 1 through 424 of this Complaint  
9 as though fully set forth here, except those paragraphs specific to the Issuer  
10 Defendants other than Greenwich Capital Acceptance, Inc., or specific to offerings  
11 other than the HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1,  
12 HVMLT 2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT  
2006-9, and HVMLT 2006-8 offerings.

13 445. The NCUA Board brings this cause of action pursuant to Section 11 of  
14 the Securities Act, with respect to WesCorp's purchases of the HVMLT 2007-5,  
15 HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT 2006-14, HVMLT  
16 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9, and HVMLT 2006-8  
17 certificates against Defendant RBS, as underwriter, and against Defendant Greenwich  
18 Capital Acceptance, Inc., as the issuer.

19 446. The NCUA Board expressly disclaims and disavows any allegation that  
20 could be construed as alleging fraud.

21 447. At the time the registration statement became effective, it (including the  
22 prospectus and any prospectus supplements) contained untrue statements and omitted  
23 facts that were necessary to make the statements made not misleading, as alleged  
24 above.

25 448. The untrue statements and omitted facts were material because a  
26 reasonably prudent investor deciding whether to purchase the certificates would have  
27 viewed them as important and as substantially altering the total mix of information  
28 available, as alleged above.



1 449. WesCorp purchased the certificates pursuant to and traceable to a  
2 defective registration statement, as alleged above.

3 450. At the time WesCorp purchased the certificates, it did not know of the  
4 untrue statements and omissions contained in the registration statement.

5 451. RBS's and Greenwich Capital Acceptance, Inc.'s conduct as alleged  
6 above violated Section 11.

7 452. WesCorp and the NCUA Board sustained damages as a result of  
8 Defendant RBS's and Defendant Greenwich Capital Acceptance, Inc.'s violations of  
9 Section 11.

10 453. WHEREFORE, the NCUA Board requests the Court to enter judgment  
11 in its favor against Defendant RBS and Defendant Greenwich Capital Acceptance,  
12 Inc., jointly and severally, awarding all damages, in an amount to be proven at trial,  
13 costs, and such other relief as the Court deems appropriate and just.

14 **FOURTH CLAIM FOR RELIEF**  
15 **Section 11 of the Securities Act**  
16 **(INDX 2006-AR35)**

17 454. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
18 as though fully set forth here, except those paragraphs specific to offerings other than  
19 the INDX 2006-AR35 offering.

20 455. The NCUA Board brings this cause of action pursuant to Section 11 of  
21 the Securities Act, with respect to WesCorp's purchase of the INDX 2006-AR35  
22 certificates against Defendant RBS, as underwriter.

23 456. The NCUA Board expressly disclaims and disavows any allegation that  
24 could be construed as alleging fraud.

25 457. At the time the registration statement became effective, it (including the  
26 prospectus and any prospectus supplements) contained untrue statements and omitted  
27 facts that were necessary to make the statements made not misleading, as alleged  
28 above.



1 458. The untrue statements and omitted facts were material because a  
2 reasonably prudent investor deciding whether to purchase the certificate would have  
3 viewed them as important and as substantially altering the total mix of information  
4 available, as alleged above.

5 459. WesCorp purchased the certificate pursuant to and traceable to the  
6 defective registration statement, as alleged above.

7 460. At the time WesCorp purchased the certificate, it did not know of the  
8 untrue statements and omissions contained in the registration statement.

9 461. RBS's conduct as alleged above violated Section 11.

10 462. WesCorp and the NCUA Board sustained damages as a result of  
11 Defendant RBS's violations of Section 11.

12 463. WHEREFORE, the NCUA Board requests the Court to enter judgment  
13 in its favor against Defendant RBS awarding all damages, in an amount to be proven at  
14 trial, costs, and such other relief as the Court deems appropriate and just.

15 **FIFTH CLAIM FOR RELIEF**  
16 **Section 11 of the Securities Act**  
17 **(LUM 2007-1)**

18 464. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
19 as though fully set forth here, except those paragraphs specific to the Issuer  
20 Defendants other than Lares Asset Securitization, Inc., or specific to offerings other  
21 than the LUM 2007-1 offering.

22 465. The NCUA Board brings this cause of action pursuant to Section 11 of  
23 the Securities Act, with respect to WesCorp's purchase of the LUM 2007-1 certificates  
24 against Defendant RBS, as underwriter, and against Defendant Lares Asset  
25 Securitization, Inc., as the issuer.

26 466. The NCUA Board expressly disclaims and disavows any allegation that  
27 could be construed as alleging fraud.  
28

1           467. At the time the registration statement became effective, it (including the  
2 prospectus and any prospectus supplements) contained untrue statements and omitted  
3 facts that were necessary to make the statements made not misleading, as alleged  
4 above.

5           468. The untrue statements and omitted facts were material because a  
6 reasonably prudent investor deciding whether to purchase the certificate would have  
7 viewed them as important and as substantially altering the total mix of information  
8 available, as alleged above.

9           469. WesCorp purchased the certificate pursuant to and traceable to the  
10 defective registration statement, as alleged above.

11           470. At the time WesCorp purchased the certificate, it did not know of the  
12 untrue statements and omissions contained in the registration statement.

13           471. RBS's and Lares Asset Securitization, Inc.'s conduct as alleged above  
14 violated Section 11.

15           472. WesCorp and the NCUA Board sustained damages as a result of  
16 Defendant RBS's and Defendant Lares Asset Securitization, Inc.'s violations of  
17 Section 11.

18           473. WHEREFORE, the NCUA Board requests the Court to enter judgment  
19 in its favor against Defendant RBS and Defendant Lares Asset Securitization, Inc.,  
20 jointly and severally, awarding all damages, in an amount to be proven at trial, costs,  
21 and such other relief as the Court deems appropriate and just.

22                           **SIXTH CLAIM FOR RELIEF**  
23                           **Section 11 of the Securities Act**  
24                           **(NHELI 2007-1)**

25           474. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
26 as though fully set forth here, except those paragraphs specific to the Issuer  
27 Defendants other than Nomura Home Equity Loan, Inc., or specific to offerings other  
28 than the NHELI 2007-1 offering.

1           475. The NCUA Board brings this cause of action pursuant to Section 11 of  
2 the Securities Act, with respect to WesCorp's purchase of the NHELI 2007-1  
3 certificates against Defendant RBS, as underwriter, and against Defendant Nomura  
4 Home Equity Loan, Inc., as the issuer.

5           476. The NCUA Board expressly disclaims and disavows any allegation that  
6 could be construed as alleging fraud.

7           477. At the time the registration statement became effective, it (including the  
8 prospectus and any prospectus supplements) contained untrue statements and omitted  
9 facts that were necessary to make the statements made not misleading, as alleged  
10 above.

11           478. The untrue statements and omitted facts were material because a  
12 reasonably prudent investor deciding whether to purchase the certificate would have  
13 viewed them as important and as substantially altering the total mix of information  
14 available, as alleged above.

15           479. WesCorp purchased the certificate pursuant to and traceable to the  
16 defective registration statement, as alleged above.

17           480. At the time WesCorp purchased the certificate, it did not know of the  
18 untrue statements and omissions contained in the registration statement.

19           481. RBS's and Nomura Home Equity Loan, Inc.'s conduct as alleged above  
20 violated Section 11.

21           482. WesCorp and the NCUA Board sustained damages as a result of  
22 Defendant RBS's and Defendant Nomura Home Equity Loan, Inc.'s violations of  
23 Section 11.

24           483. WHEREFORE, the NCUA Board requests the Court to enter judgment  
25 in its favor against Defendant RBS and Defendant Nomura Home Equity Loan, Inc.,  
26 jointly and severally, awarding all damages, in an amount to be proven at trial, costs,  
27 and such other relief as the Court deems appropriate and just.  
28

**SEVENTH CLAIM FOR RELIEF**  
**Section 11 of the Securities Act**  
**(WMLT 2006-ALT1)**

484. The NCUA Board realleges paragraphs 1 through 424 of this Complaint, as though fully set forth here, except those paragraphs specific to the Issuer Defendants other than Wachovia Mortgage Loan Trust, LLC, or specific to offerings other than the WMLT 2006-ALT1 offering.

485. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act, with respect to WesCorp's purchase of the WMLT 2006-ALT1 certificate against Defendant RBS, as the underwriter, and against Defendant Wachovia Mortgage Loan Trust, LLC, as the issuer.

486. The NCUA Board expressly disclaims and disavows any allegation that could be construed as alleging fraud.

487. At the time the registration statement became effective, it (including the prospectus and any prospectus supplements) contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

488. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificate would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

489. WesCorp purchased the certificate pursuant to and traceable to the defective registration statement, as alleged above.

490. At the time WesCorp purchased the certificate, it did not know of the untrue statements and omissions contained in the registration statement.

491. RBS's and Wachovia Mortgage Loan Trust, LLC's conduct as alleged above violated Section 11.

1           492. WesCorp and the NCUA Board sustained damages as a result of  
2 Defendant RBS's and Defendant Wachovia Mortgage Loan Trust, LLC's violations of  
3 Section 11.

4           493. WHEREFORE, the NCUA Board requests the Court to enter judgment  
5 in its favor against Defendant RBS and Defendant Wachovia Mortgage Loan Trust,  
6 LLC, jointly and severally, awarding all damages, in an amount to be proven at trial,  
7 costs, and such other relief as the Court deems appropriate and just.

8                           **EIGHTH CLAIM FOR RELIEF**  
9                           **Section 12(a)(2) of the Securities Act**  
10                           **(AHMA 2007-3)**

11           494. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
12 as though fully set forth here, except those paragraphs specific to the offerings other  
13 than the AHMA 2007-3 offering.

14           495. The NCUA Board brings this cause of action pursuant to Section  
15 12(a)(2) of the Securities Act, with respect to WesCorp's purchases of the AHMA  
16 2007-3 certificate against Defendant RBS as the statutory seller and/or offeror of the  
17 certificate.

18           496. The NCUA Board expressly disclaims and disavows any allegation that  
19 could be construed as alleging fraud.

20           497. Defendant RBS offered to sell and sold the securities to WesCorp  
21 through one or more instrumentalities of interstate commerce (*i.e.*, telephone, faxes,  
22 mails, e-mail, or other means of electronic communication).

23           498. Defendant RBS offered to sell and sold the securities, for its own  
24 financial gain, to WesCorp by means of the prospectus and/or prospectus  
25 supplements, as alleged above, and/or oral communications related to the  
26 prospectuses and/or prospectus supplements.  
27  
28

1           499. The prospectuses and/or prospectus supplements contained untrue  
2 statements of material fact and omitted facts that were necessary to make the  
3 statements made not misleading, as alleged above.

4           500. The untrue statements of material fact and omitted facts were material  
5 because a reasonably prudent investor deciding whether to purchase the certificates  
6 would have viewed them as important and as substantially altering the total mix of  
7 information available, as alleged above.

8           501. WesCorp purchased the certificates on the initial offering pursuant to the  
9 prospectus and/or prospectus supplements.

10          502. At the time WesCorp purchased the certificates, it did not know of the  
11 untrue statements and omissions contained in the prospectuses and/or prospectus  
12 supplements.

13          503. Defendant RBS's conduct as alleged above violated Section 12(a)(2).

14          504. WesCorp and the NCUA Board sustained damages as a result of  
15 Defendant RBS's violations of Section 12(a)(2).

16          505. WHEREFORE, the NCUA Board requests the Court to enter judgment  
17 in its favor against Defendant RBS awarding damages in an amount to be proven at  
18 trial, costs, and such other relief as the Court deems appropriate and just.

19                   **NINTH CLAIM FOR RELIEF**

20                   **Section 12(a)(2) of the Securities Act**

21                   **(HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT**  
22                   **2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9,**  
23                   **HVMLT 2006-8)**

24          506. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
25 as though fully set forth here, except those paragraphs specific to the offerings other  
26 than HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT  
27 2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9,  
28 and HVMLT 2006-8 offerings.

1           507. The NCUA Board brings this cause of action pursuant to Section  
2 12(a)(2) of the Securities Act, with respect to WesCorp's purchases of the HVMLT  
3 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT 2006-14,  
4 HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9, and  
5 HVMLT 2006-8 certificates against Defendants RBS and Greenwich Capital  
6 Acceptance, Inc. as the statutory sellers and/or offerors of those certificates.

7           508. The NCUA Board expressly disclaims and disavows any allegation that  
8 could be construed as alleging fraud.

9           509. Defendants RBS and Greenwich Capital Acceptance, Inc. offered to sell  
10 and sold the securities to WesCorp through one or more instrumentalities of interstate  
11 commerce (*i.e.*, telephone, faxes, mails, e-mail, or other means of electronic  
12 communication).

13           510. Defendants RBS and Greenwich Capital Acceptance, Inc. offered to sell  
14 and sold the securities, for its own financial gain, to WesCorp by means of the  
15 prospectus and/or prospectus supplements, as alleged above, and/or oral  
16 communications related to the prospectuses and/or prospectus supplements.

17           511. The prospectuses and/or prospectus supplements contained untrue  
18 statements of material fact and omitted facts that were necessary to make the  
19 statements made not misleading, as alleged above.

20           512. The untrue statements of material fact and omitted facts were material  
21 because a reasonably prudent investor deciding whether to purchase the certificates  
22 would have viewed them as important and as substantially altering the total mix of  
23 information available, as alleged above.

24           513. WesCorp purchased the certificates on the initial offering pursuant to the  
25 prospectus and/or prospectus supplements.

26           514. At the time WesCorp purchased the certificates, it did not know of the  
27 untrue statements and omissions contained in the prospectuses and/or prospectus  
28 supplements.



1           515. Defendant RBS and Greenwich Capital Acceptance, Inc.'s conduct as  
2 alleged above violated Section 12(a)(2).

3           516. WesCorp and the NCUA Board sustained damages as a result of  
4 Defendants RBS and Greenwich Capital Acceptance, Inc.'s violations of Section  
5 12(a)(2).

6           517. WHEREFORE, the NCUA Board requests the Court to enter judgment  
7 in its favor against Defendants RBS and Greenwich Capital Acceptance, Inc. awarding  
8 damages in an amount to be proven at trial, costs, and such other relief as the Court  
9 deems appropriate and just.

10                           **TENTH CLAIM FOR RELIEF**  
11                           **Section 12(a)(2) of the Securities Act**  
12                           **(NAA 2006-AR4)**

13           518. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
14 as though fully set forth here, except those paragraphs specific to the offerings other  
15 than the NAA 2006-AR4 offering.

16           519. The NCUA Board brings this cause of action pursuant to Section  
17 12(a)(2) of the Securities Act, with respect to WesCorp's purchases of the NAA 2006-  
18 AR4 certificate against Defendants RBS and Nomura Asset Acceptance Corp. as the  
19 statutory sellers and/or offerors of those certificates.

20           520. The NCUA Board expressly disclaims and disavows any allegation that  
21 could be construed as alleging fraud.

22           521. Defendants RBS and Nomura Asset Acceptance Corp. offered to sell and  
23 sold the securities to WesCorp through one or more instrumentalities of interstate  
24 commerce (*i.e.*, telephone, faxes, mails, e-mail, or other means of electronic  
25 communication).

26           522. Defendants RBS and Nomura Asset Acceptance Corp. offered to sell and  
27 sold the securities, for its own financial gain, to WesCorp by means of the prospectus  
28

1 and/or prospectus supplements, as alleged above, and/or oral communications related  
2 to the prospectuses and/or prospectus supplements.

3 523. The prospectuses and/or prospectus supplements contained untrue  
4 statements of material fact and omitted facts that were necessary to make the  
5 statements made not misleading, as alleged above.

6 524. The untrue statements of material fact and omitted facts were material  
7 because a reasonably prudent investor deciding whether to purchase the certificates  
8 would have viewed them as important and as substantially altering the total mix of  
9 information available, as alleged above.

10 525. WesCorp purchased the certificates on the initial offering pursuant to the  
11 prospectus and/or prospectus supplements.

12 526. At the time WesCorp purchased the certificates, it did not know of the  
13 untrue statements and omissions contained in the prospectuses and/or prospectus  
14 supplements.

15 527. Defendants RBS and Nomura Asset Acceptance Corp.'s conduct as  
16 alleged above violated Section 12(a)(2).

17 528. WesCorp and the NCUA Board sustained damages as a result of  
18 Defendants RBS and Nomura Asset Acceptance Corp.'s violations of Section 12(a)(2).

19 529. WHEREFORE, the NCUA Board requests the Court to enter judgment  
20 in its favor against Defendants RBS and Nomura Asset Acceptance Corp. awarding  
21 damages in an amount to be proven at trial, costs, and such other relief as the Court  
22 deems appropriate and just.

23 **ELEVENTH CLAIM FOR RELIEF**  
24 **Section 12(a)(2) of the Securities Act**  
25 **(INDX 2006-AR35)**

26 530. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
27 as though fully set forth here, except those paragraphs specific to the offerings other  
28 than the INDX 2006-AR35 offering.

1           531. The NCUA Board brings this cause of action pursuant to Section  
2 12(a)(2) of the Securities Act, with respect to WesCorp's purchases of the INDX 2006-  
3 AR35 certificates against Defendant RBS as the statutory seller and/or offeror of  
4 those certificates.

5           532. The NCUA Board expressly disclaims and disavows any allegation that  
6 could be construed as alleging fraud.

7           533. Defendant RBS offered to sell and sold the securities to WesCorp  
8 through one or more instrumentalities of interstate commerce (*i.e.*, telephone, faxes,  
9 mails, e-mail, or other means of electronic communication).

10           534. Defendant RBS offered to sell and sold the securities, for its own  
11 financial gain, to WesCorp by means of the prospectus and/or prospectus  
12 supplements, as alleged above, and/or oral communications related to the  
13 prospectuses and/or prospectus supplements.

14           535. The prospectuses and/or prospectus supplements contained untrue  
15 statements of material fact and omitted facts that were necessary to make the  
16 statements made not misleading, as alleged above.

17           536. The untrue statements of material fact and omitted facts were material  
18 because a reasonably prudent investor deciding whether to purchase the certificates  
19 would have viewed them as important and as substantially altering the total mix of  
20 information available, as alleged above.

21           537. WesCorp purchased the certificates on the initial offering pursuant to the  
22 prospectus and/or prospectus supplements.

23           538. At the time WesCorp purchased the certificates, it did not know of the  
24 untrue statements and omissions contained in the prospectuses and/or prospectus  
25 supplements.

26           539. Defendant RBS's conduct as alleged above violated Section 12(a)(2).

27           540. WesCorp and the NCUA Board sustained damages as a result of  
28 Defendant RBS's violations of Section 12(a)(2).

1           541. WHEREFORE, the NCUA Board requests the Court to enter judgment  
2 in its favor against Defendant RBS awarding damages in an amount to be proven at  
3 trial, costs, and such other relief as the Court deems appropriate and just.

4                           **TWELTH CLAIM FOR RELIEF**  
5                           **Section 12(a)(2) of the Securities Act**  
6                           **(NHELI 2007-1)**

7           542. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
8 as though fully set forth here, except those paragraphs specific to the offerings other  
9 than the NHELI 2007-1 offering.

10          543. The NCUA Board brings this cause of action pursuant to Section  
11 12(a)(2) of the Securities Act, with respect to WesCorp's purchases of the NHELI  
12 2007-1 certificates against Defendants RBS and Nomura Home Equity Loan, Inc. as  
13 the statutory sellers and/or offerors of those certificates.

14          544. The NCUA Board expressly disclaims and disavows any allegation that  
15 could be construed as alleging fraud.

16          545. Defendants RBS and Nomura Home Equity Loan, Inc. offered to sell  
17 and sold the securities to WesCorp through one or more instrumentalities of interstate  
18 commerce (*i.e.*, telephone, faxes, mails, e-mail, or other means of electronic  
19 communication).

20          546. Defendants RBS and Nomura Home Equity Loan, Inc. offered to sell  
21 and sold the securities, for its own financial gain, to WesCorp by means of the  
22 prospectus and/or prospectus supplements, as alleged above, and/or oral  
23 communications related to the prospectuses and/or prospectus supplements.

24          547. The prospectuses and/or prospectus supplements contained untrue  
25 statements of material fact and omitted facts that were necessary to make the  
26 statements made not misleading, as alleged above.

27          548. The untrue statements of material fact and omitted facts were material  
28 because a reasonably prudent investor deciding whether to purchase the certificates

1 would have viewed them as important and as substantially altering the total mix of  
2 information available, as alleged above.

3 549. WesCorp purchased the certificates on the initial offering pursuant to the  
4 prospectus and/or prospectus supplements.

5 550. At the time WesCorp purchased the certificates, it did not know of the  
6 untrue statements and omissions contained in the prospectuses and/or prospectus  
7 supplements.

8 551. Defendants RBS and Nomura Home Equity Loan, Inc.'s conduct as  
9 alleged above violated Section 12(a)(2).

10 552. WesCorp and the NCUA Board sustained damages as a result of  
11 Defendants RBS and Nomura Home Equity Loan, Inc.'s violations of Section 12(a)(2).

12 553. WHEREFORE, the NCUA Board requests the Court to enter judgment  
13 in its favor against Defendants RBS and Nomura Home Equity Loan, Inc. awarding  
14 damages in an amount to be proven at trial, costs, and such other relief as the Court  
15 deems appropriate and just.

16 **THIRTEENTH CLAIM FOR RELIEF**  
17 **Section 12(a)(2) of the Securities Act**  
18 **(LUM 2007-1)**

19 554. The NCUA Board realleges paragraphs 1 through 424 of this Complaint,  
20 as though fully set forth here, except those paragraphs specific to the offerings other  
21 than the LUM 2007-1 offering.

22 555. The NCUA Board brings this cause of action pursuant to Section  
23 12(a)(2) of the Securities Act, with respect to WesCorp's purchases of the LUM 2007-1  
24 certificates against Defendants RBS and Lares Asset Securitization, Inc. as the  
25 statutory sellers and/or offerors of those certificates.

26 556. The NCUA Board expressly disclaims and disavows any allegation that  
27 could be construed as alleging fraud.  
28

1           557. Defendants RBS and Lares Asset Securitization, Inc. offered to sell and  
2 sold the securities to WesCorp through one or more instrumentalities of interstate  
3 commerce (*i.e.*, telephone, faxes, mails, e-mail, or other means of electronic  
4 communication).

5           558. Defendants RBS and Lares Asset Securitization, Inc. offered to sell and  
6 sold the securities, for its own financial gain, to WesCorp by means of the prospectus  
7 and/or prospectus supplements, as alleged above, and/or oral communications related  
8 to the prospectuses and/or prospectus supplements.

9           559. The prospectuses and/or prospectus supplements contained untrue  
10 statements of material fact and omitted facts that were necessary to make the  
11 statements made not misleading, as alleged above.

12           560. The untrue statements of material fact and omitted facts were material  
13 because a reasonably prudent investor deciding whether to purchase the certificates  
14 would have viewed them as important and as substantially altering the total mix of  
15 information available, as alleged above.

16           561. WesCorp purchased the certificates on the initial offering pursuant to the  
17 prospectus and/or prospectus supplements.

18           562. At the time WesCorp purchased the certificates, it did not know of the  
19 untrue statements and omissions contained in the prospectuses and/or prospectus  
20 supplements.

21           563. Defendants RBS and Lares Asset Securitization, Inc.'s conduct as alleged  
22 above violated Section 12(a)(2).

23           564. WesCorp and the NCUA Board sustained damages as a result of  
24 Defendants RBS and Lares Asset Securitization, Inc.'s violations of Section 12(a)(2).

25           565. WHEREFORE, the NCUA Board requests the Court to enter judgment  
26 in its favor against Defendants RBS and Lares Asset Securitization, Inc. awarding  
27 damages in an amount to be proven at trial, costs, and such other relief as the Court  
28 deems appropriate and just.



**FOURTEENTH CLAIM FOR RELIEF**  
**Violation of the California Corporate Securities Law of 1968**  
**Cal. Corp. Code §§ 25401 and 25501**

**(NAA 2006-AR4, AHMA 2007-3, FFMLT 2005-FFH4, HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT 2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9, HVMLT 2006-8, INDX 2006-AR35, LUM 2007-1, MHL 2006-1, NHELI 2007-1, SVHE 2005-OPT4)**

566. The NCUA Board realleges paragraphs 1 through 424 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the NAA 2006-AR4, AHMA 2007-3, FFMLT 2005-FFH4, HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT 2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9, HVMLT 2006-8, INDX 2006-AR35, LUM 2007-1, MHL 2006-1, NHELI 2007-1, and SVHE 2005-OPT4 offerings.

567. The NCUA Board brings this cause of action pursuant to Sections 25401 and 25501 of the California Corporate Securities Law of 1968, with respect to WesCorp's purchases of the NAA 2006-AR4, AHMA 2007-3, FFMLT 2005-FFH4, HVMLT 2007-5, HVMLT 2007-4, HVMLT 2007-2, HVMLT 2007-1, HVMLT 2006-14, HVMLT 2006-12, HVMLT 2006-11, HVMLT 2006-10, HVMLT 2006-9, HVMLT 2006-8, INDX 2006-AR35, LUM 2007-1, MHL 2006-1, NHELI 2007-1, SVHE 2005-OPT4 certificates against Defendant RBS, as the seller of those certificates.

568. The NCUA Board expressly disclaims and disavows any allegation that could be construed as alleging fraud.

569. Defendant RBS offered to sell for its own financial gain and sold the certificates to WesCorp by means of written and/or oral communications which included untrue statements of material fact and omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

570. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have



1 viewed them as important and as substantially altering the total mix of information  
2 available, as alleged above.

3 571. Defendant RBS sold the certificates to WesCorp in California.

4 572. Defendant RBS's sales of the certificates violated Cal. Corp. Code  
5 § 25401.

6 573. WesCorp and the NCUA Board sustained damages as a result of  
7 Defendant RBS's violations of Cal. Corp. Code § 25401, and WesCorp and the NCUA  
8 Board are entitled to the remedies provided by Cal. Corp. Code § 25501.

9 574. WHEREFORE, the NCUA Board requests the Court to enter judgment  
10 in its favor against Defendant RBS awarding damages in an amount to be proven at  
11 trial, costs, and such other relief as the Court deems appropriate and just.

12 **PRAYER FOR RELIEF**

13 WHEREFORE, Plaintiff prays for judgment as follows:

- 14 a) For judgment against the Defendants in accordance with the  
15 prayers for relief set forth in each of the foregoing Claims for  
16 Relief;  
17 b) For Plaintiff's costs of suit; and  
18 c) For any other relief the Court deems just and proper.

19 PLAINTIFF DEMANDS A JURY TRIAL.  
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1  
2 Dated: August 19, 2013

3  
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By:

 /s/ Marc M. Seltzer

Attorneys for Plaintiff National  
Credit Union Administration Board

## Appendix

**Table 11**

CUSIP	Issuing Entity	Date of Prospectus Supplement	Trade Date	Case(s) That Supplies American Pipe Tolling	American Pipe Tolling Start Date	American Pipe Tolling End Date
6553DAB1	NAA 2006-AR4	11/29/2006	11/17/2006	<i>Plumbers' Union Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp.</i> , No 08-544 (Mass Sup Ct filed January 31, 2008), <i>removed to</i> No 08-10446 (D Mass Mar 18, 2008)	1/31/2008	1/20/2011
41161GAE3	HVMLT 2006-8	8/28/2006	8/1/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41161XAM8	HVMLT 2006-9	10/3/2006	8/18/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-601451 (N Y Sup Ct filed May 14, 2008), <i>removed to</i> No 08-5093 (S D N Y June 3, 2008)	5/14/2008	7/18/2011
41161XAN6	HVMLT 2006-9	10/3/2006	3/8/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-601451 (N Y Sup Ct filed May 14, 2008), <i>removed to</i> No 08-5093 (S D N Y June 3, 2008)	5/14/2008	7/18/2011
41162CAD3	HVMLT 2006-10	11/10/2006	10/18/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41162GAB8	HVMLT 2006-11	11/10/2006	10/27/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41162DAG4	HVMLT 2006-12	12/11/2006	10/19/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011

CUSIP	Issuing Entity	Date of Prospectus Supplement	Trade Date	Case(s) That Supplies American Pipe Tolling	American Pipe Tolling Start Date	American Pipe Tolling End Date
41162DAH2	HVMLT 2006-12	12/11/2006	11/29/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41162NAD9 41162NAH0	HVMLT 2006-14	12/20/2006	12/5/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41164MAF4	HVMLT 2007-1	3/7/2007	2/14/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41164MAP2	HVMLT 2007-1	3/7/2007	2/16/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41164MAP2	HVMLT 2007-1	3/7/2007	3/12/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41164LAC3	HVMLT 2007-2	3/29/2007	3/1/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
41165AAC6 41165AAD4	HVMLT 2007-5	7/11/2007	6/26/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011
45667SAN7 45667SAP2	INDX 2006-AR35	11/29/2006	11/28/2006	<i>IBEW Local 103 v. IndyMac MBS, Inc.</i> , No BC405843 (L A Sup Ct filed Jan 20, 2009), removed to No 09-1520 (C D Cal Mar 4, 2009); <i>Police &amp; Fire Retirement System of the City of Detroit v. IndyMac MBS, Inc.</i> , No 09-4583 (S D N Y filed May 14, 2009); <i>Wyoming State Treasurer v. Olinski</i> , No 09-5933 (S D N Y filed June 29, 2009)	1/20/2009	7/18/2011

Table 12

CUSIP	Issuing Entity	Date of Prospectus Supplement	Trade Date	Case That Supplies American Pipe Tolling	American Pipe tolling start date	American Pipe Tolling End Date	Federal Claims Timely with American Pipe Tolling?	Additional Tolling Based on Tolling Agreement – Aug. 18, 2010 to Apr. 29, 2011	Federal Claims Timely with American Pipe + Tolling Agreement?
6553DAB1	NAA 2006-AR4	11/29/2006	11/17/2006	<i>Plumbers' Union Local No. 12 Pension Fund v. Nomura Asset Acceptance Corp.</i> , No 08-544 (Mass Sup Ct filed January 31, 2008), removed to No 08-10446 (D Mass Mar 18, 2008)	1/31/2008	1/20/2011	Yes	Yes	Yes
41161GAE3	HVMLT 2006-8	8/28/2006	8/1/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (SDNY filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41161XAM8	HVMLT 2006-9	10/3/2006	8/18/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-601451 (NY Sup Ct filed May 14, 2008), removed to No 08-5093 (SDNY June 3, 2008)	5/14/2008	7/18/2011	Yes	Yes	Yes
41161XAN6	HVMLT 2006-9	10/3/2006	3/8/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-601451 (NY Sup Ct filed May 14, 2008), removed to No 08-5093 (SDNY June 3, 2008)	5/14/2008	7/18/2011	Yes	Yes	Yes
41162CAD3	HVMLT 2006-10	11/10/2006	10/18/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (SDNY filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes

CUSIP	Issuing Entity	Date of Prospectus Supplement	Trade Date	Case That Supplies American Pipe Tolling	American Pipe tolling start date	American Pipe Tolling End Date	Federal Claims Timely with American Pipe Tolling?	Additional Tolling Based on Tolling Agreement – Aug. 18, 2010 to Apr. 29, 2011	Federal Claims Timely with American Pipe + Tolling Agreement?
41162GAB8	HVMLT 2006-11	11/10/2006	10/27/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41162DAG4	HVMLT 2006-12	12/11/2006	10/19/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41162DAH2	HVMLT 2006-12	12/11/2006	11/29/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41162NAD9 41162NAH0	HVMLT 2006-14	12/20/2006	12/5/2006	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41164MAF4	HVMLT2007-1	3/7/2007	2/14/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41164MAP2	HVMLT 2007-1	3/7/2007	2/16/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41164MAP2	HVMLT 2007-1	3/7/2007	3/12/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes

CUSIP	Issuing Entity	Date of Prospectus Supplement	Trade Date	Case That Supplies American Pipe Tolling	American Pipe tolling start date	American Pipe Tolling End Date	Federal Claims Timely with American Pipe Tolling?	Additional Tolling Based on Tolling Agreement – Aug. 18, 2010 to Apr. 29, 2011	Federal Claims Timely with American Pipe + Tolling Agreement?
41164LAC3	HVMLT 2007-2	3/29/2007	3/1/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
41165AAC6 41165AAD4	HVMLT 2007-5	7/11/2007	6/26/2007	<i>New Jersey Carpenters Vacation Fund v. The Royal Bank of Scotland Group, plc</i> , No 08-5093 (S D N Y filed May 19, 2009)	5/19/2009	7/18/2011	Yes	Yes	Yes
45667SAN7 45667SAP2	INDEX 2006-AR35	11/29/2006	11/28/2006	<i>IBEW Local 103 v. IndyMac MBS, Inc.</i> , No BC405843 (L.A. Sup Ct filed Jan 20, 2009), removed to No 09-1520 (C D Cal Mar 4, 2009); <i>Police &amp; Fire Retirement System of the City of Detroit v. IndyMac MBS, Inc.</i> , No 09-4583 (S D N Y filed May 14, 2009); <i>Wyoming State Treasurer v. Olinski</i> , No 09-5933 (S D N Y filed June 29, 2009)	1/20/2009	7/18/2011	Yes	Yes	Yes